Successfully managing chain-wide change

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Abstract:

While decades ago innovative organizations were particularly known for their product innovations, nowadays this label is reserved for organizations that are able to adapt to changing landscapes by redesigning their business models. At the turn of the last century globalization was the driving force behind intensifying competition, and large international players were able to change the rules of the game. A decade later, the web-based economy – with powerful players such as Amazon, Alibaba, Netflix, and Google – is again redefining traditional sector boundaries and distribution methods and is forcing incumbents to either play by the new rules or quit. Playing by these new rules means being innovative by quickly adapting the business model and implementing the required changes successfully.

Keywords: organizations | adaption | business

Article:

> 'There is nothing more difficult to take in hand, more perilous to conduct, or more uncertain in its success, than to take the lead in the introduction of a new order of things.'
> *– Niccolo Machiavelli (1469–1527)*

The number one organizational challenge

While decades ago innovative organizations were particularly known for their product innovations, nowadays this label is reserved for organizations that are able to adapt to changing landscapes by redesigning their business models. At the turn of the last century globalization was the driving force behind intensifying competition, and large international players were able to change the rules of the game. A decade later, the web-based economy – with powerful players such as Amazon, Alibaba, Netflix, and Google – is again redefining traditional sector boundaries and distribution methods and is forcing incumbents to either play by the new rules or quit.

Playing by these new rules means being innovative by quickly adapting the business model and implementing the required changes successfully.

Managing change is the number one challenge identified by 48% of the businesses worldwide in a recent study. When organizations don't respond to developments in the environment their survival becomes threatened. The potential detrimental effect of a lack of organizational change is demonstrated by examples such as Howard Johnson's, Rexall Drug, Stuckey's, Blockbuster and Movie Gallery. In 2004, Blockbuster had over 9,000 company-owned and franchised units in the US with almost 60,000 employees. In 2010, it filed for bankruptcy due to not responding to competition from Netflix and Redbox. In 2013, it closed all its remaining company-owned stores and only the 50 franchised units remained open. Movie Gallery was the second largest retail movie rental store behind Blockbuster. It grew through the 2000s through acquisitions and takeovers, acquiring Hollywood Video. The company filed for bankruptcy in 2010 and closed its doors for the same reasons as Blockbuster.

Despite the importance of organizational change, 50–70% of changes fail during implementation. Implementing changes is especially challenging in chain organizations since they are a specific organizational form with unique problems. Chains typically become successful by replicating an attractive business format in a large number of units in different geographical locations. Well-known examples are McDonald's, Wal-Mart, Subway, Supercuts, CVS, Baskin Robbins, Home Depot, Holiday Inn, and 7-Eleven. Implementing chain-wide changes is a difficult challenge because units with varying characteristics and different geographical circumstances all have to adopt the same changes in a limited time period to maintain chain uniformity and economies of scale.

Introducing chain-wide changes is particularly difficult when units are owned by franchisees. Franchisees are independent business owners who make financial investments to adopt a franchisor's business format. Despite their investments in a more or less standardized format, franchisees typically have a certain desire for entrepreneurial autonomy and their goals may not always be aligned to headquarters' goals. When confronted with franchisor-initiated change, franchisees may thus adopt different responses and these responses largely affect the success of the change implementation process. Yet very little is known about how to implement changes in franchise chains and how to manage franchisee responses.

Change in franchised chains

While franchising was introduced in the US around 1850 by Isaac Merritt Singer and Cyrus Hall McCormick, the international launch of franchising began in the 1950s and 60s. Since then, franchising accounts for about 50 percent of retail trade in the US, 67 percent in Japan, and 44 percent of all retail trade worldwide. A recent survey among national franchise associations of 21 European countries points at over 12,000 franchised brands, about 750 of which are represented in a small country such as the Netherlands. International franchising is predicted to continue growing; 32% of the top US franchisors now operate units outside the US.

The popularity of franchising is understandable because it facilitates fast chain growth since franchisees invest their own resources in building and managing their units and are typically very

committed to making their units successful. However, a main disadvantage for the franchisor is that franchising involves the complexity of managing a multitude of franchise relationships with legally independent franchisees that have their own goals. Examples of these complexities include Subway that suffered multiple lawsuits from their franchisees for putting units close together geographically, and Oil & Vinegar where franchisees contacted the Dutch media and filed lawsuits against the franchisor for mismanagement.

The franchisees' desire for autonomy and incongruent goals form a challenge for headquarters when trying to implement change. This challenge is even larger for transformational changes as compared to incremental changes. An example of an incremental change in a chain is the introduction of healthy alternatives such as apple slices and yogurt drinks in the McDonald's Happy Meal. Transformational changes require more franchisee investments and may result in more resistance, and thus require greater management focus. A recent example is the turnaround at McDonald's that was announced by CEO Steve Easterbrook in May 2015. This change requires costly equipment upgrades by franchisees (reportedly between $120,000 and $160,000) to adopt the 'Create Your Taste' strategy, resulting in several complaining franchisees covered by the media.

We look at the implementation of transformational changes to a chain's business format to better understand how to effectively manage this complex process. We conducted in-depth case studies in two large and competing Dutch drugstore franchise chains (ETOS and DA) that aimed to redesign their business formats during the increasing internationalization and competition in the early 2000s. We discuss the effectiveness of different change approaches and provide insights into how to promote desired and prevent undesired franchisee responses. The change process at ETOS was successful, whereas the one at DA was not. Comparing these change processes provides some valuable lessons on how to best manage changes in franchise chains. These lessons can be applied to other business contexts as well, especially chains with a centralized corporate organization and geographically dispersed units.

Druggists in distress: two contrasting cases

The Dutch Drugstore Context

Historically, the product range of Dutch drugstores consists of four types of product groups: *health* (including nonprescription medicines), *beauty*, *personal grooming*, and *miscellaneous* product groups (including hair accessories). In the past decades, three drugstore chains have dominated the Dutch drugstore market: ETOS, DA, and Kruidvat.

The history of ETOS goes back to 1918 when personnel at Philips Electronics in Eindhoven started a cooperation with stores that could provide them with cheap day-to-day groceries. In 1973 the Dutch chain of Albert Heijn supermarkets took over all ETOS stores and turned them into drugstores. Both Albert Heijn and ETOS became subsidiaries of AHOLD, also founded in 1973. For many years, the ETOS chain consisted of only company-owned stores, but the number of ETOS franchisees grew steadily after the first franchisee started in 1988. ETOS gradually evolved from a discounting chain with only company-owned units to a high-quality chain with

both company-owned (50%) and franchised units (50%) that all operated under a standardized business format.

The history of the DA chain goes back to World War II, when five Dutch druggists initiated a cooperative called 'DA'. They mainly wanted to establish a support network to share attractive purchasing deals. In the decades that followed, the number of DA members grew quickly, and DA turned into a 'cooperative franchise chain' with a central headquarters and a somewhat standardized business format. Even though headquarters had the formal rights to impose obligations on the DA franchisees, they did not do so for many years. DA franchisees highly valued their entrepreneurial autonomy and many of them wore white overcoats to indicate their professionalism. DA headquarters always aimed for only franchised units in the chain, no company-owned units. As is common in the Netherlands, both DA and ETOS had mainly single-unit franchisees; multi-unit franchisees usually only owned two or three units.

Compared to ETOS and DA, Kruidvat is a relatively young chain as it was started in 1975. It has always been a discounting drugstore chain with only company-owned units. The chain very quickly gained market share over time. In 1997, Kruidvat took over another discounting chain with only company-owned units (Trekpleister), and in 2002, both were bought by the China-based conglomerate AS Watson.

Distress at ETOS and DA

From the 1970s on, the Dutch drugstore industry faced radical changes in the business environment, which also affected DA and ETOS. First, a number of discounting drugstore chains – including Kruidvat – entered the market, confronting druggists with heavy price competition. Second, the entry of perfumery chains – such as Parfumerie Douglas in 1980 – challenged the traditionally strong position of Dutch druggists in perfumes and cosmetics. Third, new chains that integrated drugstore, perfumery, and pharmacy activities were emerging on the Dutch market, including the British Boots chain. Fourth, competition increased further as other nontraditional distribution channels – such as gasoline stations – began to offer health and personal care products. A final disturbing development was the start of a discussion at the Dutch government about opening up the market for nonprescription medicines.

In response to the above threats, both DA and ETOS headquarters initiated strategic changes from 2000 on. ETOS headquarters considered ETOS as being 'squeezed' between the discounter Kruidvat on the one side, and DA with its high market positioning on the other. ETOS headquarters thought that it could not win the discount race and decided to upgrade ETOS with the 'Four Worlds Format' with a more luxurious store presentation and assortment. In 2000, ETOS introduced this format to its franchisees, aiming at all company-owned and franchised units to be transformed by the end of 2006.

Already since the mid-1990s, DA headquarters had tried to move in the opposite direction through repositioning. Headquarters thought that DA's luxurious and white-coat market positioning 'scared away' customers to the benefit of Kruidvat. In the 1990s, DA headquarters introduced a new business format with a more affordable look and with more low-margin and non-drugstore products. However, the implementation of these changes had not gone smoothly

as a large number of DA franchisees had rejected them. In 2003, a new management aimed to accelerate DA's intended repositioning by introducing the ‘DA-2005 business format’ with a fresh-looking store presentation and even more low-margin drugstore and non-drugstore products. Management also introduced a more standardized franchise contract to all DA franchisees to further increase standardization and to create a more uniform market image.

Change formulation and implementation

The change process at ETOS was more successful than at DA. This difference in outcome can be explained by several reasons that are related to various stages of the change process. Change literature distinguishes a variety of stages in planned change, but for the sake of simplicity we distinguish between two stages: ‘change formulation’ and ‘change implementation’.

Change Formulation

Change formulation may take several weeks or months and typically involves analyzing the situation, developing a shared vision and a common goal. A characteristic of franchise relationships is that goals of the headquarters and the franchisees are not totally aligned: headquarters’ strategy is typically focused on chain sales and growth in the number of units, whereas franchisees are mostly interested in unit profitability. Hence, it is very important to set joint goals between headquarters and franchisees regarding the change process. For example, franchisee representatives must be involved early in the strategy formulation process.

Between DA and ETOS there was a clear difference regarding franchisee involvement during change formulation. ETOS had a Franchise Advisory Council with clear procedures, but at DA several franchisees accused the headquarters of ‘favoritism’, ‘unfairness’, and ‘fake franchisee involvement’ caused by a lack of clear procedures on the (s)election of franchisee representatives and these representatives’ rights.

Change Implementation

Change implementation generally takes much longer and involves the communication of the changes to organizational members and the members’ adaptation of practices and routines. The formulation and implementation stages are interrelated because the formulation stage has to anticipate potential problems in the implementation stage, and how the formulation process is executed sets the stage for successful or unsuccessful implementation.

At DA the franchisees perceived headquarters’ communication regarding the changes as ‘authoritarian’ and ‘arrogant’ and felt that they were forced to ‘take it or leave it’. Given that DA-franchisees had always been granted a considerable level of autonomy, they generally considered headquarters’ change approach as unacceptable. ETOS adapted the format in consultation with the franchisees (leading, for example, to the use of cheaper store materials) and used the company-owned units as pilots showing that they were prepared to invest in the changes themselves.

A typology of change approaches

Four Change Approaches

Table 1 presents four corporate change approaches that headquarters can take regarding their franchised units and describes their costs and benefits from different viewpoints: the headquarters, the customers, and the relationship between headquarters and franchisees. In practice, headquarters may adopt combinations of these approaches.

Table 1 Corporate Approaches to System-Wide Change

Approach	Viewpoint	Benefits	Costs
Standardization	Headquarters	Simple	High process control costs Low implementation costs
	Customer	High uniformity and recognition	Not accounting for local taste & context
	Relationship	–	Risk of disagreement and loss of trust among franchisees
Customization	Headquarters	–	Complex Moderate process control costs
	Customer	Local taste & context accounted for	Somewhat confused customers (less uniformity)
	Relationship	Trust of franchisee will grow	–
Empowerment	Headquarters	Simple	Moderate output control costs
	Customer	Local taste & context accounted for	Confused customers (less uniformity)
	Relationship	Franchisees feel trusted and will reciprocate	–
Muddle through	Headquarters	Simple, no big confrontations	High control costs, ineffective Many small disputes and negotiations
	Customer	–	Confused customers (low uniformity)
	Relationship	–	Distrust (including doubts about fairness)

The first change approach is standardization, which means forcing each franchisee to adopt the changes. The second one is customization, which implies allowing for differences between franchisee groups in timing or extent to which they have to adopt the changes. The third one is empowerment: defining outcomes that the franchisees need to achieve by their individual or collective action. The final approach that we observe in practice but do not recommend, is the muddle through approach. Organizations that muddle through typically have not developed clear goals and/or implementation strategies, and/or they are not enforcing them.

Both standardization and customization are top-down approaches in which headquarters is responsible for the implementation process. The consequences are very different. The standardize approach aligns with highly uniform and strict franchising business formats. Even within a single franchise chain, franchisees are likely to differ in their personalities, goals and local circumstances, so at least some of the franchisees will disagree with the imposed changes and may lose trust because they feel that the headquarters does not take into account their interests. Moreover, with the standardization approach, strict monitoring of the franchisees' actual implementation of the changes will be necessary and will lead to additional costs.

A customization approach will show the franchisees that the franchisor is willing to recognize special circumstances which will improve their trust, but mainly at the expense of less clarity for customers. Designing and implementing a customized change is relatively complex, and

although one may expect less resistance by individual franchisees, monitoring the implementation process is still necessary.

The other two approaches do not entail top-down implementation, but actually lay the initiative in the hands of the franchisee. In the empowerment approach, the franchisees will feel respected and trusted. The headquarters will still need to monitor whether the change goals are met, but unit control is less complex and less expensive than process control. When the implementation approach is actually just muddling through, costs will be high, customers will be disappointed, and the relationship between headquarters and franchisee will deteriorate. This is what ultimately happened in the DA case.

Approaches at DA and ETOS

Both DA and ETOS used the standardization approach in their change processes; however, with different consequences. Since the group of DA franchisees had always been heterogeneous in terms of unit type and franchisee goals, the franchisor's standardization approach automatically led to a sizeable group of franchisees perceiving a misalignment of goals and a lack of trust, as they perceived the franchisor not to take into account their interests. This resulted in franchisees adopting destructive responses and ultimately in a ‘muddling through’ approach by headquarters as it did not dare to further enforce the changes and running the risk of losing too many franchisees. At ETOS the standardization approach resulted in fewer problems as the group of franchisees overall was more homogeneous because ETOS only starting franchising when they already had a large number of standardized company-owned units. ETOS had selected franchisees that were willing and able to meet these standardization prerequisites.

In sum, when determining a change implementation approach, headquarters have to take into account the level of complexity and control costs on the one hand, and unit and customer satisfaction on the other hand. The level of heterogeneity among franchisees in terms of their goals, personalities and local circumstances is an important factor: the more heterogeneous the franchisees are within a system, the more difficulties to be expected with the standardization approach.

A typology of franchisee responses

Franchisees have their own goals and ideas and may show various responses to franchisor-initiated chain-wide changes. We provide a typology of franchisee responses to change that is based on the *intent* of these responses. The *intent* of a response can be constructive, aimed at reviving or maintaining the relationship, or destructive, aimed at ending or destroying the relationship. Within these broad classes, there are passive and active responses. For example, stalling for more time is a passive response, while leaving the franchise system is definitely an active response. We describe six types of responses that franchisees can adopt when being confronted with franchisor-initiated changes to the business format.

Constructive Responses

Negotiate

Franchisees make active and constructive efforts to improve conditions, taking into account their own and the franchisor's concerns. Two different forms of negotiation responses occur. First, franchisees may not agree with the adaptations introduced by the franchisor, and feel the need to speak up and try to stop or at least impede the intended changes. Second, franchisees may overall agree with the changes, but they may want to be actively involved in discussing future developments and even want to speed up the change process.

Stay

Franchisees decide to remain loyal to the system and focus on maintaining the franchise relationship and adopt the changes with little or no discussion. There is no fighting or negotiation.

Stall

Franchisees are in doubt how to react to the franchisor-imposed changes, and they wait to see how the situation evolves before adopting further responses. Such behavior is a passive response. Stalling is a temporary 'state of mind'; once the situation develops, these franchisees are likely to switch to other responses. The stall response is difficult for franchisors to detect and may be interpreted incorrectly by the headquarters as staying when the franchisee actually ends up leaving the franchise system. The CEO of DA at the time of the changes said to us: "*A passive person is difficult to assess. It makes a great deal of difference whether I, as the CEO, ask a druggist a question, or whether you, as a researcher, ask it. You might obtain different answers*".

Destructive responses

Leave

Franchisees decide to terminate their franchise relationship by continuing the business under their own name, by joining another franchise system, or by liquidating their business. Franchisees' exit possibilities depend on the contractual and structural characteristics of their franchise relationships. For example, in the Netherlands – and especially at DA before and during the 2000s – it was relatively easy for franchisees to leave since there were few contractual restrictions and franchisees often owned their premises, whereas in the US this is typically much more difficult because of legal contracts.

Fight

Some franchisees want to 'win' without considerations for the concerns of the franchisor. For example, franchisees may file a lawsuit or threaten to do so, complain about the franchise system in the media, or withhold fees. Franchisees can also collectively engage in a fight response by joining forces to put more pressure on their franchisor. For example, this response can be adopted by small, single-unit franchisees who do not have much power on their own and who want to share the costs of their actions by filing a class-action lawsuit. In the DA case some franchisees jointly wrote a letter to the franchisor to file their complaints. A more recent example

would be 50 small Dutch Bakker Bart bakeries that jointly filed suit against their franchisor in 2014 because it drastically raised their rents during economic stagnation.

Hide

Franchisees may also simply neglect their duties to the detriment of the interests of the franchisor. In other words, the franchisees disengage. An example is one DA franchisee who told us that he signed the new franchise contract, but intended not to adhere to it and would wriggle out of many of the new requirements by just neglecting them. He expected to get away with this because the headquarters so far never really enforced changes ('muddling through').

Consequences of franchisee responses

Different types of franchisee responses have different consequences for the implementation of change. For franchisors the stay response is probably most convenient, but the other responses may pose threats if not managed effectively. For example, DA headquarters often misinterpreted the stall response for staying and many of the 'stallers' eventually left the chain, resulting in major problems for the headquarters. The hide, fight, negotiate and leave responses led to an important 'implementation trade-off' for both DA and ETOS headquarters. To what extent should management 'give in' to prevent further destructive franchisee responses, especially when these were high-performing franchisees with valuable locations?

At ETOS the implementation trade-off was less important than at DA because fewer ETOS franchisees adopted destructive responses. During the repositioning in the 1990s, DA already struggled with the implementation trade-off causing headquarters not to enforce the changes, resulting in a 'muddling through' approach and a failed change process. This may explain why the new DA management chose the standardization approach in 2003; it really wanted franchisees to take it or leave it. However, this again resulted in large scale destructive franchisee responses and – again – a difficult implementation trade-off for DA.

Ultimately, many franchisees left DA in reaction to the change processes. Franchisee disagreement with the change processes was the main cause of DA losing more than 600 of its 1,000 stores over a period of about 20 years. As a result, the DA chain began a downward spiral: economies of scale decreased and overhead costs of DA headquarters became too high, leading to serious financial problems. In 2009, the DA headquarters had to be rescued from bankruptcy by a large external investor. For ETOS, the number of stores has grown from about 440 stores in 2003 to over 500 stores in 2015 with the same 50% split between company-owned and franchise units.

Factors affecting franchisee responses

Three Main Factors Affecting Responses

Given the decisive consequences of franchisee responses to headquarter-initiated change, an important question is what causes these responses. Similar to other relationships that people engage in (marriage, friendship or employment), the franchise relationship is only maintained if

it fits the franchisee's needs and if it is not easy and attractive to switch to another partner. We distinguish between three main criteria that franchisees use to assess their relationship when transformational change is introduced: relationship value, relational constraints, and trust.
The *value* the franchise relationship brings to the franchisee is mainly determined by profit and strategic fit. A franchise is a commercial endeavor which means that unit profit will always be an important criterion for franchisees to assess the value of the relationship. Additionally, the franchise chain should fit the franchisees' fundamental strategic management desires, such as the level of autonomy granted and the actual market positioning of the business format.

Relational constraints are determined by the presence of attractive alternatives and the costs of switching to these alternatives. Switching to another chain means investing in new facilities but perhaps also paying fines for breach of contract. With only a few alternatives and/or high switching costs, the relational constraints are high.

The third but ultimately most important factor franchisees consider in their responses to change is their confidence that the headquarters has the ability and intention to make the relationship work – whether they can *trust* their headquarters.

Explaining Franchisee Responses at DA

In the DA case, a sizeable group of franchisees experienced problems regarding their unit profitability, strategic fit and their trust in the headquarters. Many DA franchisees expected the changes to result in lower unit profitability because the system level promotion activities were mainly aimed at generating additional turnover resulting in higher fees for the franchisor – as franchise fees were largely based on turnover levels – but also higher unit costs and ultimately lower unit profitability.

Additionally, these franchisees expected lower strategic fit regarding DA's lower market positioning and higher standardization level because they still valued DA's original values of professional advice and entrepreneurial autonomy.

Moreover, many of these franchisees had a low level of trust in the DA headquarters due to their experiences with 'arrogant management' during DA's repositioning in the 1990s. This lack of trust really became a problem during the changes in the 2000s with the requirement to sign a new contract with higher financial investments and lower levels of autonomy. As one DA-franchisee said: '*Would you sign a long-term contract with a partner whom you do not trust*?' The combination of low trust and a lower level of expected autonomy led to franchisees feeling at the mercy of a suspect franchisor. This led to a 'straightjacket effect' and thus strong destructive franchisee responses.

Explaining Franchisee Responses at ETOS

At ETOS it was easier for headquarters to formulate changes that would positively affect franchisees' unit profitability and perception of strategic fit (and thus relationship value) because franchisees were more homogeneous in terms of types of unit locations and goals.

Moreover, ETOS franchisees had higher levels of trust in headquarters as the company 'institutionalized' several instruments in the chain to enhance trust among the franchisees. These included the Franchise Advisory Council with clear procedures, franchise fees based on franchisees' purchasing value rather than turnover, and company-owned units. Because ETOS calculated fees over the purchasing value, franchisees felt that their franchisor did not have an interest in just increasing turnover levels. Also, the franchisor would not simply increase purchasing prices because these were the same for company-owned and franchised units, and this was monitored by an accountant.

ETOS headquarters deliberately aimed for a predetermined division between company-owned and franchised units. It always wanted the turnover of the company-owned units to be at least 51% of the ETOS system's total turnover to provide a convincing sign to the franchisees. One franchisee explained why he was convinced to adopt new goods: '*Because ETOS has company-owned units, the goods we sell need to produce profits; therefore, the interests of ETOS and its franchisees run parallel*.' A balance between company-owned and franchised units in a chain helps in balancing headquarters' and franchisees' interests and in convincing franchisees to implement changes.

A model for understanding franchisee responses

Fig. 1 presents a simplified decision tree regarding franchisees' initial responses to transformational change. As the figure shows, a franchisee's trust in the headquarters is the primary issue.

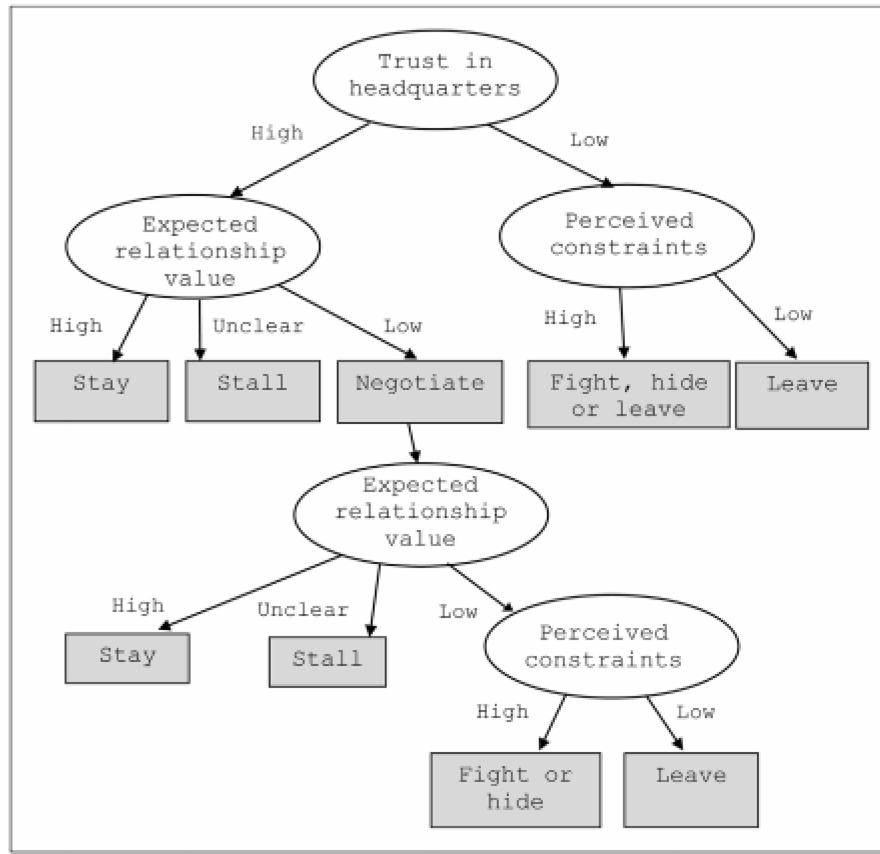

Figure 1 Unit Initial Responses to Chain-Wide Change

Responses When Trust is Low

If trust is low, franchisees are very likely to adopt destructive responses: leave, fight or hide. The franchisee's response then depends on relational constraints. When the constraints are low, franchisees tend to leave, and when the constraints are high, franchisees tend to fight or hide. However, some even leave despite high constraints; their trust is so low that they just want to get out of the relationship. This especially happened at DA. Some of the DA franchisees' exit responses seemed irrational because their relationship value (unit profitability and strategic fit) and relational constraints were still high. However, their lack of trust made them want to 'punish' the headquarters by leaving the relationship.

Responses When Trust is High

If trust is high, franchisees will move on to assess the expected value of the relationship after the changes. The relationship value is based on the franchisee's expected satisfaction with unit profit and the perception of strategic fit with the franchise system in terms of market positioning and level of autonomy. In case of high trust and low relationship value, franchisees are likely to negotiate and to discuss their concerns with the franchisor to find a mutually beneficial solution. Negotiations can occur multiple times, until franchisees believe there is no more room to negotiate.

If the expected relationship value becomes high as a result of these negotiations, the franchisee is inclined to stay. If the expected relationship value remains low, the franchisee will assess the relationship constraints. Low constraints make a franchisee more inclined to leave, whereas in case of high constraints the franchisee is most likely to hide or fight. These hide or fight responses negatively affect the chain because they delay change implementation and they may result in bad publicity and a bad reputation among the chain's stakeholders, including prospective franchisees, potential investors and the general public. The stall response mostly occurs when things are unclear. This happened very often at DA because of headquarters' muddling through approach.

The Impact of Time

Fig. 1 is a simplified version of reality. The most important complication is that change processes take time, and time may change everything. For example, as franchisees gain more information and interact with the franchisor, their assessment of unit profit and strategic fit may change. The franchisor may also alter the content of the changes during the process. Sometimes, external parties even purposefully influence the process. At DA, for example, competitors actively approached franchisees with attractive deals to entice them to switch chains.

A final complicating factor is that during negotiations franchisees' trust in headquarters can be affected negatively. When this happens the franchisee may skip the assessment of relationship value and switch to destructive responses. This means that franchisees switch between different responses over time. For instance, DA's largest franchisee made such response switches. This franchisee owned nearly 20 stores, whereas most DA-franchisees had just one store. His initial response to the changes was to leave because he had experienced a decrease in trust and relationship value over time. However, his response changed to a stay response because the franchisor did not want to lose him and took the initiative to negotiate. The franchisee eventually stayed and said: '*Initially I rated my satisfaction with the relationship as low, but now it is higher. My satisfaction was low at the time I wanted to leave… At one point the headquarters contacted me to negotiate about my contract and they then took a different approach by involving me in headquarters' decisions.*'

Recommendations

> 'The only thing that is constant is change'.
> *– Heraclitus (535 B.C.E. – 475 B.C.E.)*

Organizations have always been confronted with changing business landscapes that require business model redesigns. Given the growing speed of developments, effectively implementing transformational changes is an increasingly important organizational capability that is required for organizational prosperity and survival. We have focused on chain organizations as many of them have become very successful by replicating a business format on a large scale. Yet, a successful business format today does not provide guarantees for a successful format tomorrow. We identify lessons to be learned that can help chain organizations, and specifically the ones with franchised units, to manage change more effectively in the future.

Recommendations for Strategy Formulation

Regarding *strategy formulation*, the following recommendations apply:

- Given that goals of the headquarters and franchisees are not totally aligned, it is important to involve franchisees early on in the change process by setting joint goals that every partner understands. Headquarters needs to recognize that franchisees aim for unit profitability, although they may not be rational financial optimizers. It is wise to include a number of franchisees in the strategy formulation process who can represent all the other franchisees' interests, such as on a Franchise Advisory Council. It is important to formulate clear procedures for the Council, most specifically on the (s)election of franchisee representatives and their rights and obligations.

- It is imperative to take into account franchisee and unit heterogeneity caused by differences between individuals and between local circumstances – even within a single franchise chain. If franchisee and unit heterogeneity within a chain are high, it is important for headquarters to foresee potential problems with relationship value (strategic fit and unit profit) for specific franchisee groups.

Recommendation for Strategy Implementation

Recommendations regarding *strategy implementation*:

- Headquarters should be aware of different change implementation approaches. In determining their approach, headquarters have to take into account the level of complexity and control costs on the one hand, and franchisee and customer satisfaction on the other hand. In implementing changes, headquarters have to deal with an important implementation trade-off between really enforcing changes on franchisees and bowing to the pressure of franchisees' destructive responses, particularly those of valuable franchisees. This trade-off can easily lead to a muddle through approach, which should be avoided at all times.

- The heterogeneity of franchisees and units in the chain largely determines which change approach is suitable; a standardization approach may be desirable because of its relative simplicity and efficiency, but it only seems suitable for chains with homogenous franchisees and units. For more heterogeneous chains the customization or empowerment approaches will probably be more appropriate than the standardized approach. In case a chain is heterogeneous, headquarters should understand the causes of this heterogeneity in order to manage the relationship value for each type of franchisee in the chain. If possible, avoid or actively manage franchisee heterogeneity by careful franchisee selection and training.

- Franchisees' trust in headquarters is always very important. Franchisees may 'punish' the headquarters if they do not trust them; they may adopt destructive responses even when

their expected relationship value and the relational constraints are high. Franchisors can take various structural measures to improve trust, such as initiating a Franchise Advisory Council, using a fee structure based on purchasing value (with monitoring by an accountant), investing in a sizeable group of company-owned units and using them as pilots when introducing changes. Relational measures are important as well, such as having open communication, and a non-authoritarian leadership style.

- Trust in the headquarters becomes extremely relevant in situations where franchisees experience high and/or growing standardization and thus a loss of autonomy. The combination of a lack of trust and a low autonomy may lead to a 'straightjacket effect', which makes franchisees react very strongly to proposed changes.

- It does not really pay off for franchisors to increase franchisees' constraints, such as financial switching costs, because unhappy franchisees that do not expect improvements in trust and relationship value will adopt destructive responses anyway.

Conclusion

Franchise chains occupy a growing segment of the economy. They are unique legally independent units, which jointly form a network with a specific business format that is valuable and recognizable to the customer. As consumers, we are familiar with them worldwide. We are also aware when they are managed effectively and when they are managed badly. We encourage managers to examine the complexities of chain-wide change before implementation; to bring about constructive franchisee responses by involving the franchisees early on in the change process, and to recognize how franchisee responses can change over time and that trust is needed to maintain an effective relationship.

The complexities of implementing chain-wide change require a full benefit and cost analysis. In the end, managers and franchisees must clearly understand why and where the change is taking them. We encourage managers to consider the insights provided in this article and how they might be applied at the corporate and unit level in order to deal with current and future dynamic environments. Because ultimately, 'When you're finished changing, you're finished', *Benjamin Franklin (1706–1790)*.

Selected bibliography

There is a lot of scientific literature that has classified change recipients' responses to change and that has aimed to understand the antecedents of these responses. For a critical review of dimensions of change recipients' attitudes and behaviors toward change, see S. K. Piderit (2000), "Rethinking Resistance and Recognizing Ambivalence: a Multidimensional View of Attitudes toward and Organizational Change," *Academy of Management Review*, 25(4), 783–794. Our own typology of behavioral responses is based on the so-called Exit, Voice, Loyalty and Neglect (EVLN) response typology, which has typically been used to classify responses to 'hypothetical problematic events'. The following paper is among the few to suggest this typology for classifying responses to organizational changes: A. K. Mishra and G. M. Spreitzer (1998),

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