# Agency and the Network Franchise System: Collaboration and Dissonance

## Abstract

Franchise systems are networks structured by contractual ties. Traditional governance literature suggests that the contract and information exchange mechanism provide necessary and sufficient means for franchisors to exercise control of the system. However, network literature belies this perspective. This paper reports research that supports the validity of network theories in franchise situations via the content of the language used by actors within a franchise network.

## Introduction

Control in interfirm networks is often regarded as a non secuitur. This is because networks are regarded as emergent, actors as interdependent and any capacity to exert influence as constrained by the actor's position and identity (Hakansson & Johanson, 1993). However, franchise systems are a form of network where a greater degree of control may be exercised by the franchisor. But research into their governance structures suggests that they "require very careful interpersonal relationship management ... and that leadership by the centre firm cannot be assumed to control network processes" (Sydow, 1998).

Agency theory has been used to provide guidance as to the governance options in franchise arrangements. This theory seeks to identify efficient contractual arrangements between actors and the governance mechanisms that reduce the opportunism that exists when ties between actors are asymmetric power–dependence structures, such as those in franchise arrangements (Bergen et al. 1992; Eisenhardt 1989). Here opportunistic behaviour is controlled using either contractual arrangement and/or information exchanges. The opportunistic behaviours of agents are curbed because they can no longer act with impunity. However, the theory offers only limited insight. While the contract is the ultimate sanction for non-compliance and information exchange provides a vehicle to monitor performance, these devices provide only a limited scope for improving performance and coordination within the franchise network and (at the very least) further coordination is needed within such a governance framework.

We argue that other research better addresses these issues, by considering the need for and benefits of collaborative business relationships (Jap, 1999, Wilkinson & Young 2002). However, there is often an assumption that once the benefits of collaboration are apparent to relationship participants, there is "smooth sailing" for collaborating organisations (Levitt 1986). This is far from universally so. The franchise system is one such case where competition and self-interest often mitigate against the fulfillment of the promise of collaboration. Organisations are often in collaborations that they did not choose, e.g. are tied together by long term contracts, and must attempt to cooperate with departments or individuals with different goals (e.g. Young & Denize, 1995). Maintaining such collaborations is 'challenging' - they struggle to continue as collaborations, often seem on the verge of falling apart, of failing (Baker, Geirland, Fisher & Chandler, 1999).

The remainder of this paper presents findings and discussion of a study that seeks to better understand the nature of such challenges, in particular considering their opportunities and/or problems. In the longer term this work will seeks ways in which "challenging collaborations" (as are exhibited in franchise networks) can be made effective (or become less challenging).

# Method

To understand the challenges of collaboration, this research investigates the vocabulary of collaboration and dissonance within a community service network. The primary activity within the network is to broker links for unemployed individuals to find jobs. The network comprises approximately fifty actor-organisations (both not-for-profit and profit-taking) that are tied by virtue of a service delivery contract (that is very similar to a franchise arrangement). The centre-firm negotiates the service delivery contracts (with the government funding unit) on behalf of the network members. The various members of the network deliver the service according to the specific detail of their contract with the centre-firm and the government funding agency. Other connections within the network are based on social bonds (friendships), ownership ties (some network actors are commonly owned), as well as resource links (information reporting technology, staff etc.).

Six semi-structured interviews and observations have been conducted with selected network members. The results presented here provide a lexigraphic perspective of the challenges of collaboration within the network by analysing the reflections of its members. Content analysis is used to identify frequently occurring and co-occurring words in text-based material (in this case the transcribed interviews). These in turn are amalgamated into higher order "concepts" based on word proximity and co-occurance using the software, Leximancer. Each three sentence block of text is then coded as reflecting a concept, or not, based on the words used and their frequency is computed. The software also produces a "map" providing a visual representation of the main themes and the concepts that form them and shows how they are connected to each other, as well providing detailed summaries of concepts and the frequency with which they occur (see Figure 1). Table 1 (appendix) provides a tabular summary of the main concepts explored in this analysis. The concepts are linked back to the text via a browser so that concepts and their interconnections to other concepts can be explored and interpreted - as occurs in the results that follow.

# Results

A number of higher order themes can be identified within which highly related concepts are clustered, and these are depicted by the circles and are labelled in the larger font in Figure 1's map. These themes have been identified by calculating the connectedness of pairs of concepts - depicted by the dots and smaller font in Figure 1. (Refer to Table 1 (appendix) for details of these concepts and how they are defined by the words associated with them). The most frequently occurring concepts, "work" and "people" are located in fairly central positions on Figure 1's concept map (their importance is indicated both via the larger size of their theme circles and their relative darkness/lightness). The "work" concept is within the theme of work which also includes other concepts that are in close proximity to it such as "find," "place," "day," "help," "back," "Centerlink," "week," and "client." Together these concepts can be regarded as a themed cluster. The remainder of this section considers the nature of the three most important themes emerging in our analysis. These themes reflect the deeper structure of what our informants believe to be the key issues of the challenging collaboration within this network.

*Theme 1 – PEOPLE (includes the concepts people, sort, clients, think, person, busy, coming, kind, started, job, problems, coming)*

This theme comprised 12 concepts, six of which are among the top ten most frequently occurring. These concepts relate to the informant's experiences with people (and in particular with clients) as they work. Strong sentiments to emerge at this level of analysis are the emotional and social responsibility informants feel toward their clients. Concerns regarding the time they have available to work with people and the structures that exist (or don't) to

facilitate interaction are also evident within this cluster. Valuable structures that enhance network performance could be discerned in the informal ties between other community organisations. This is illustrated by an informant who said when asked how they facilitated their performance:

> "...by forming relationships with local communities. You know with the homeless organisations, with the welfare organisations we have a pretty strong connection with a lot of welfare organisations in the area where it's a bit of a contra thing, not that we couldn't pay for it but its just a relationship that we do, they help us and we help them."

Figure 14: Concept Map
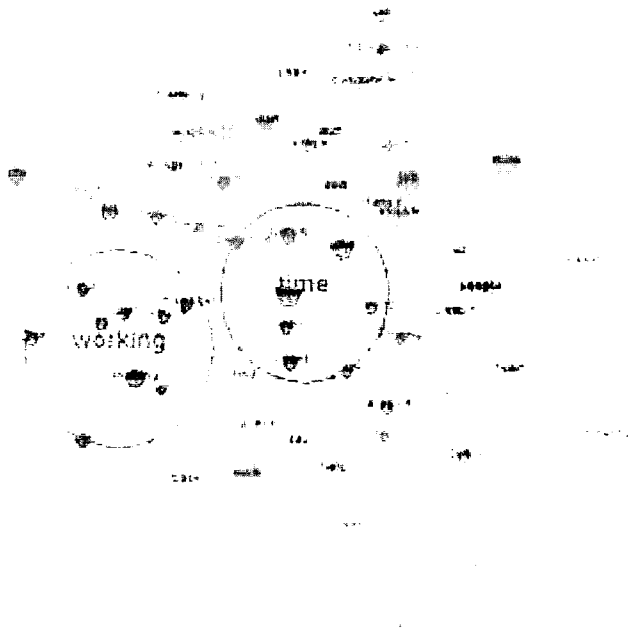


Theme 2 – Work (work, find, place, day, help, back, Centerlink, week, client)

The WORK theme comprises nine concepts, including work itself. This is the most frequently occurring concept in the text analysed. The thesaurus of words used to form the work concept shows it is described as somewhat bureaucratic and there is a sense of frustration regarding this. However, closer inspection reveals these frustrations mainly relate to difficulties with work systems and technology, as illustrated by an informant who said:.

> "... you know I think they'd just given up maybe [referring to staff that have previously resigned], maybe we'll all give up in three months cause of all the paperwork and the computers that don't work and take forever and the printers that never ever work and all those sorts of things that yeah maybe we'll be frustrated and go "Oh forget it I'm not going to put any claims for people because it will only take two weeks to put one person's thing through"

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In the exploration of the co-occurrences of these concepts with concepts in the PEOPLE theme, problems associated with communication and collaboration emerge as substantive issues.

> "Ok yeah. Within the [target network] site I noticed when I first came here it seemed to be site against site, "Oh we've got to do this" and "We've got to get that and don't share any of your information". I was like aren't we all pushing the same barrow, we all work for [target organisation] you know. So attending staff meetings with other managers I changed a lot of the structure here so."

*Theme 3 – TIME (time, system, kind, experience, works, client, care, coming)*

This captures issues pertaining to systems, work practices, technology, and bureaucracy. Again, sentiments of frustration and resignation emerge when informants talk about these:

> "The most challenging things are overcoming the feelings of there's just so much to do where do I start and then how do I start because we have no training so that's an enormous challenge because then you've got to try and find someone to show you and they're really busy trying to work out how to do something themselves so you're making them fall behind and you're falling behind and you're dragging each other down."

> "What I've tried to do is streamline the paperwork so that consultants have more time with clients and if you make it easy for them to do their reports then they're more likely to do it instead of having to say, "Give it to me, give it to me"."

*Other Themes Emerging*

Other themes have been identified as shown on the map, however our analysis to date has shown several of these (organisation, staff, working and team) to highlight similar issues as emerge in the three main concepts. It is beyond the scope of this paper to reflect on the subtleties of these different lenses of interpretation. In the remaining themes, concept frequency and co-occurrences are too low to provide much insight. When further interviews are undertaken and the text available for analysis is expanded it is anticipated that these issues will reveal interesting, further patterns focussing in particular on staff and training.

## Discussion and Conclusions

Many of the challenges of collaboration are driven by the uncertainty that comes from today's complex and rapidly evolving business environment (Brandenburger and Nalebuff 1997). This uncertainty takes many forms including: technological change (Malone, Morton, & Halperin, 1996), organisational change (Katsirikou & Skiadas, 2001; Olsen & Haslett, 2002) and planning incapability (Cherilu et al 2002). While we have focused on the first of these here, all three are reflected in our focal network. For example, the dialogue in which the theme of WORK is embedded deals with challenges pertaining to technology and work systems. These issues emerge even more dramatically in discussions that form part of the theme of TIME. Technology and the difficulties with learning and adapting to systems are highlighted there as being of particular concern.

Although environmental uncertainty and rapid change create challenges for collaboration, it is through collaboration that relationships can be developed and sustained, that knowledge as well as other strategically important resources are accessed and created and these same challenges are overcome. This is particularly evident when considering the intersection of the PEOPLE and WORK themes. Although the emphasis in PEOPLE is on the relationship of the service provider and client, their intersection reveals the significance of collaboration as the means to address challenges (through learning and knowledge transfer, for example) of other important network relationships. This reflects the work of writers such as Wilkinson and

Young (2002) who argue that relational coordination is, or should be, a central managerial concern, as this is the means by which the joint productivity of a network of connected business relationships is improved. In contrast the contractual relationships that tie the organizations to the network and provide performance indicators (and sanctions) are a source conflict and concern – creating problems which absorb resources rather than facilitating the performance of the network's functions. Hence we conclude in that an effective analytical framework for contractually connected networks must extend past agency theory to utilize theories of collaboration that address the drivers of challenge. This more extended framework will be utilized in the analysis of subsequent interviews and observations that form the basis of a more comprehensive case study of this organization.

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Table 1 is available from the first author on request (to ensure the page limit is maintained). It has been included here to facilitate review.

# APPENDIX
## Table 1: Top ten concepts, thesaurus, and related concepts

| | Concept | Absolute Count | Relative Count | Thesaurus (commonly associated words) | [THEME] Related Concepts |
|---|---|---|---|---|---|
| 1 | work | 152 | 100% | government, afternoon, extra, barriers , disadvantaged, highly, personality, square, frustrated , presentation, spend, duties, force, worker, responsibility, released, space | [WORK] find, place, day, help, back, Centerlink, week, client |
| 2 | people | 148 | 97.3% | helping, homeless, providing, drug, personal, police, disability, attitude, alcohol, appointments | [PEOPLE] sort, clients, think, person, busy, coming, kind, started, job, problems, sort, coming |
| 3 | job | 118 | 77.6% | seeker, providing, centre, referring, communicate, holidays, groups, Christmas, industry , lived | [PEOPLE] |
| 4 | think | 108 | 71.0% | invaluable, trained , practices, personality, enormous, strategies, post, university, harder, contractual | [PEOPLE] |
| 5 | sort | 91 | 59.8% | hang, board, charge, room, talked, plan, brain, e-mailing , tomorrow, mentality | [PEOPLE] |
| 6 | time | 85 | 55.9% | classes, spending, sheets, turn, language, mentality, brought, knowing, expect, non-indigenous | [TIME] system, kind, experience, works, client, care, coming |
| 7 | kind | 66 | 43.4% | personal, bureaucratic, necessarily, e-mailing, standard, term, triangle, authority, relying, rewarding | [PEOPLE] [TIME] |
| 8 | working | 66 | 43.4% | working, needing creativity, line, past, centres, gym, fully, logging, aged | [WORKING] e-mail, manager, start, send, give, call, few |
| 9 | lot | 62 | 40.7% | forming, delivering, mobile, interesting, e-mailing, welfare, phones, ratings, answered, frustration | [LOT] months, site, months |
| 10 | clients | 61 | 40.1% | referring, gave, speak , previous, interests, ID, develop, men, places, minded | [PEOPLE] |

Analysis proceeded by taking two most frequently occurring of these concepts (work and job) and then identifying the concepts that occurred most frequently in close proximity within the interview. For example, when interviewees discussed work they also discussed people, job and time. Next every instance where interviewees discussed pairs of concepts (for example work and people) was located in the interview transcript and the actual interview transcript scrutinised for themes. The map on the following page illustrates graphically the concepts and how they are associated.