Innovation in franchise systems: best practices promoting the development and adoption of innovations

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EXECUTIVE SUMMARY

As technological developments are accelerating, it becomes increasingly important for companies to innovate faster than ever before. For most franchise organizations, this can be a real challenge. Primarily because franchising involves the frequent replication of a business model. As a result, franchise systems have a strong focus on operational activities, and less attention is paid to exploratory activities from which innovations can emerge. Consequently, innovation in franchise systems is often hampered.

There is however, little literature on how the development and adoption of innovations can be promoted in franchise systems. This thesis makes a contribution by providing an answer to this question. This was done by means of a benchmark analysis that compared two, in terms of innovativeness, opposite retrospective case studies. Subsequently, several best practices, promoting the development and adoption of innovation were formulated.

The results indicate that franchise organizations should consider innovating according to a coupled innovation process since this could restore the imbalance between exploitation and exploration activities. Additionally, franchise organizations that aspire to be innovative should develop the hard and soft side of innovation, as building and nurturing an innovative organization requires both. Finally, the adoption of innovations can be accelerated by limiting the involvement of franchisees in the innovation adoption process.

There are however a couple of prerequisites that should be taken into account when limiting the involvement of franchisees. First of all, the stake that franchisees have in the franchise should be kept to a minimum in order to minimize the power franchisees can exercise. Secondly, the franchisor should own a decent amount of distribution outlets for the development and testing of innovations, as well as to build trust among its franchisees. Trust levels can be further increased by appointing ex-franchisees in key executive positions. Third, franchise organizations should consider facilitating enterprising franchisees as they can accelerate the

development of incremental innovations, and as shown by this research, can convince franchisees of adopting innovations.

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1. INTRODUCTION

Analysts predict that many industries, including retail, will be undergoing a massive disruption in the years to come. The cause of this disruption lies primarily in technological developments, which are becoming exponentially faster available, and democratized. Resulting in falling barriers to entry, and in theory an increasing amount of new entrants (Caldbeck, 2016; Lobaugh, 2015). As technology innovations, such as artificial intelligence, robotics and additive manufacturing, are developing faster than Moore's law, disruptive competitive risks for dominant incumbents start to emerge (Brigss & Shingles, 2015). To stay ahead of the competition, incumbents cannot purely rely on adding value to a fixed set of activities within a value chain. To survive they must reinvent the value creating-system and orchestrate the different actors, such as suppliers, business partners and customers, to work together in creating value (Shepherd & Ahmed, 2000; Windahl & Lakemond, 2006). By using a co-creation approach, incumbent firms can move away from producing short lived products and provide sustainable solutions for customer problems instead (Shepherd & Ahmed, 2000). The underlying strategic goal of it all is to create an continuous improving fit between customers and competencies by means of innovation (Normann & Ramirez, 1993).

The scope of innovation is however broad and complex. Products, processes, positions, paradigms, as well as an entire business model of an organization can for instance all be innovated (Amit & Zott, 2012; Bessant & Tidd, 2011; Henry Chesbrough, 2007). Apart from a broad scope, technological developments make innovation more and more complex. As a result, it is increasingly difficult for companies to innovate on their own. To overcome complexity, it started to be common practice for firms to co-produce or co-create innovations with other firms, customers and even competitors (Coombs & Metcalfe, 2002; Shepherd & Ahmed, 2000).

Whilst potential disruptive technology is becoming available to virtually everyone, it is vital that incumbents innovate more frequent and faster than ever before. For most incumbents with company-owned retail outlets changing the organization to engage into innovative behaviour can be hard thing to achieve. Such a turnaround is even harder for incumbents running a franchise system, as franchise organizations are not the most effective organizational form for engaging into innovative behaviour (Shane, 2005). The primary reason being, is that franchise organizations are faced with the challenge to stimulate innovation while preventing franchisees from potential opportunism at the cost of the chain as a whole (Lewin-Solomons, 1999). Fundamental elements of successful franchise formulas are standardization and replication which can suffocate innovative behaviour of franchisees (Price, 1997).

1.1 Problem formulation and research objective

The purpose of this research was born out of observations that I made during my job as E-Commerce Manager ICT at Intergamma B.V., a Do It Yourself (DYI) franchise organization. From this experience I learned, that although disruptive competitive risks start to emerge for our industry, innovations at Intergamma are rarely developed in close collaboration with suppliers, franchisees or customers. I also observed that it can take a considerable amount of time before innovations are adopted by franchisees. Even worse, innovations do not emerge or hit barriers and get stuck in the innovation adoption process and are never taken into good use.

The process by which organizations develop and adopt innovations varies for functionally similar organizations (Ven, Angle, & Poole, 2000). While there's a broad body of literature describing the process of innovation in various contexts, there has been little research on how innovations emerge and are adopted in franchise systems. Moreover, some franchise organizations are more successful in innovating than others. Domino's Pizza's Enterprises (DPE) for instance is a franchise holding the 20th position on Forbes' list of most innovative growth companies (Forbes, 2017). What is it that innovative franchise organizations, like

Domino's Pizza's, do to address challenges that hinder innovations in franchise systems to emerge and become widely adopted? The objective of this research is twofold. First of all, to make a scientific contribution in the field of innovation development and adoption within the context of franchise systems. Secondly, to give recommendations, in the form of best practices, that franchise organizations can apply to improve the development and adoption of innovations. To achieve this, this research will answer the following question:

How can the development and adoption of innovations be promoted in franchise systems?

1.2 Research Method

This research will employ a qualitative research approach for answering the research question. The research method consists of performing a generic benchmark analysis by comparing two retrospective case studies of franchise organizations that differ extremely in terms of innovativeness. By analysing and comparing two extreme cases, gaps will be identified and subsequently best practices derived. For this purpose, Domino's Pizza's Enterprises, highly recognized as being innovative, is compared with Intergamma B.V. which is not recognized as such.

1.3 Thesis outline

This thesis is organized as follows. First the available literature in the field of innovation, co-creation and franchising will be reviewed. These fields are each described in separate chapters. In the first chapter, chapter 2, the concepts of innovation and innovativeness are discussed. Also argued is why this research will view innovation from an adoption process perspective. Next in chapter 3, it is then considered why co-creation for companies is becoming increasingly important and how co-creation can be leveraged to promote innovation. The literature review is completed in chapter 4. In this chapter will be elaborated on what franchising

is, what purpose is serves, and what forms can be distinguished. In addition, several findings from other scholars are set out that can either hinder or stimulate the development and adoption of innovations in franchise systems.

After the literature review, the method of research will be explained in chapter 5. This will be done by arguing the chosen research strategy and method of data analysis. Thereafter in chapter 6 the case study results will be presented and in chapter 7, the analysis of the research data, subsequent findings and best practices are discussed.

In concluding chapter 8 the answer to the research question is provided, as well as an interpretation of the findings, management recommendations, reflection on research project and some suggestions for further research.

2. INNOVATION ADOPTION

In this chapter will be argued what innovation is and why innovation in organizations could be viewed from the innovation adoption theory. The first two paragraph of this chapter explore the concept of innovation by reviewing a broad body of literature on innovation. Thereafter, it will be argued why this research approaches innovation from an innovation adoption process perspective and in what way innovation adoption differs from innovation diffusion. In paragraph 2.2 the difference between the concepts innovation and innovativeness is made clear as these are often used interchangeably by scholars, while a clear distinction should be made. In this paragraph is also argued how organizational innovativeness can be determined. Paragraph 2.3 briefly explains the concepts of exploration and exploitation and how these concepts are related to franchise system innovativeness.

In the final paragraph 2.4, innovation is reviewed from an adoption process perspective. This chapter concludes with a summary.

2.1 Innovation conceptualized

The academic field of innovation is extensive and diffused. Scholars have approached innovation from different angles and made distinctions between invention, innovating, innovativeness, innovation diffusion and innovation adoption (Damanpour, 1991).

The concepts of innovation and invention are however often confused. According to Becker and Whisler (1967) invention is the creative act of the individual and innovation the organizational or social process by which inventions come to first use. An organization could for instance invent an idea for a certain piece of technology and decide not to use it. Years later, the same or another company, becomes the first user of the technology (Becker & Whisler, 1967). In some cases though, it is hard to separate invention and innovation and in others there's a significant time interval of sometimes decades between the two (Rogers, 1995).

Becker and Whisler (1967) argue that this first user should be considered the innovator. Innovation is therefore about the process of bringing a novel idea to use, and invention is the first step in this process (Bessant & Tidd, 2011).

Innovations come in many shapes and forms. Schumpeter classified innovations by their newness and distinguished five types of innovations; new products, new production methods, new supply sources, new markets and new ways of organizing business (Schumperter, 1939). Based on Schumpeter's work another approach to classify innovations emerged, which is to determine how radical innovations are in comparison with the existing organization or environment. In this classification, continuous improvements are not considered radical but incremental or marginal innovations (Fagerberg, 2004; Freeman & Soete, 1997). Radical innovations should not be confused with disruptive innovations. Disruptive innovations have the characteristic to shake up a whole industry. This type of innovation, which originally underperforms with respect to the technology of well-established firms, become disruptive when the same performance, often at a lower cost, is reached in the eyes of mainstream customers. When this is the case, the technology of incumbent firms is displaced with the technology of the disruptor. In many cases resulting in the failure of the well-established firms (Corsi & Di Minin, 2014; Wessel & Christensen, 2012). Other studies on innovation categorised innovations based on their functionality or the domain of focus (Adams, 2003). Daft (1978) for instance made the distinction between technical and administrative innovations. While technical innovations concentrate on innovating products, processes and services, administrative innovations pertain to policies, resource allocations and structuring of tasks (Daft, 1978). Subsequently, technical innovations make an organization more competitive and administrative innovations will ultimately lead to higher levels of organizational efficiency (Subramanian & Nilakanta, 1996).

There is an extensive body of literature in which various definitions of innovation have been coined. It was Schumpeter (1939) who provided the first, though broadly formulated, definition of innovation. Schumpeter (1939) defined innovation from a product function

perspective. He argued that the quantity of products is related to the quantity of factors. Meaning that the production output of goods or services is constrained by the available means of making these products and services. When however, the form of the production function is altered and becomes new to the organization, one can speak of innovation. Schumpeter's (1939) definition is quite broad as he reasons that setting up a new production function is not only about introducing new products, but can also be about making changes to the structure of an organization or the entrance to new markets. Thus according to Schumpeter, innovation is about combining existing factors in new ways (Schumperter, 1939).

After Schumpeter's (1939) initial definition of innovation various other definitions emerged which approached innovation from different angles. Becker and Whisler (1967) for instance argue that innovation should not be confused with organizational change. The costs of search and the degrees of risk are considerably higher for innovators than for organizations that just follow and implement innovations. Innovation should therefore be viewed from the organization's environment and not from the organization itself. Becker and Whisler define innovation: "[..] as the first or early use of an idea by one of a set of organizations with similar goals." (Becker & Whisler, 1967, p. 463). Later studies are however more in line with Schumpeter's (1939) initial definition and state that innovation can have an organizational internal perspective. These studies define innovation as the adoption of an idea or behaviour new to the organization adopting the idea (Daft, 1978; Damanpour & Evan, 1984; Ven et al., 2000). It is this definition of innovation, which focuses on adoption of innovations, that is used for this research. Mainly because the importance for organizations to be able to adopt innovations will increase when co-creating with customers and suppliers. In a co-creation constellation, innovations or innovative ideas will often come from sources outside the company itself (Prahalad & Ramaswamy, 2004). It is however important to recognize that there is a difference between innovation adoption and innovation diffusion. Diffusion has mostly to do with marketing, distribution and transfer to individual end users of innovations. While adoption of

innovations is about the process by which recipient user organizations select, adjust and implement innovations in their organization (Ven et al., 2000).

2.2 Innovativeness

Innovation and innovativeness are often used interchangeably by scholars. Not all organizations that innovate can be regarded as innovative however. Innovativeness is a behaviour or trait, that an organization exhibits constantly over time. In fact, innovative organizations demonstrate to adopt a larger number of innovations earlier than others (Damanpour & Evan, 1990; Subramanian & Nilakanta, 1996).

That innovativeness is an organizational trait is underscored by the research of Lumpkin and Dess (1996). They define innovativeness as “a firm's tendency to engage in and support new ideas, novelty, experimentation, and creative processes that may result in new products, services, or technological processes” (Lumpkin & Dess, 1996, p. 142). Nevertheless, characterizing companies as innovative cannot solely be based on their tendency or ambition to innovate. The successful exploitation of innovations should also be considered. In other words, the ability of an organization to introduce and adopt new products, services, processes new to the organization (Hult, Hurley, & Knight, 2004). Innovation on the other hand is considered an organizational process involving the initiation, adoption decision and implementation of novel ideas (Bessant & Tidd, 2011; Damanpour, 1996; Rogers, 1995; Ven et al., 2000; Wolfe, 1994). Innovativeness can thus be considered the result of a well-managed innovation adoption process.

Highly innovative organizations consider innovativeness to be a fundamental aspect of their organizational strategy (Subramanian & Nilakanta, 1996). Such organizations excel on two important dimensions: (1) Hard innovation: which is about establishing organizational structures that promote innovation. Such as employing a stage-gate methodology for innovation initiatives, reward schemes, or providing resources that encourage collaboration. (2) Soft innovation:

involves effective management of the hard side of innovation, this includes creating a culture that embraces innovation and an environment that allows innovation to emerge (Pervaiz K. Ahmed, 1998). Creating an innovative culture is however extremely difficult as culture consists of tacit assumptions and deeply rooted beliefs which take considerable time to unlearn (Mintzberg, Ahlstrand, Lampel, & Gijsen, 1999).

Innovativeness is a hard to measure construct though. Damanpour and Evan (1990) measured innovativeness by the average number of innovation adoptions between two time intervals. In a later study however, Subramanian et al. (1996) argue that innovativeness can only be measured as a multi dimensional construct when innovativeness is assumed to be a organizational trait. In their research they describe three dimensions: (1) the number of innovations that have been adopted by an organization, (2) the time of adoption (early versus late) of each innovation in comparison to other organizations, and (3) the consistency of adoption patterns over time (consistently early or late) (Subramanian & Nilakanta, 1996).

In a later study Furr & Dyer (2014) coin an easier way to determine the level of innovativeness. They postulate that innovativeness can be determined by the innovation premium (IP) that investors are willing to pay. Amazon for instance has an outstanding innovation track record since its beginning in 1996. Because of this track record Amazon has been able to maintain an IP of 73 percent (Furr & Dyer, 2014). According to Furr & Dyer (2014): “Amazon’s IP means that investors are inclined to pay a premium that is 73 percent higher than the net present value from existing business” (p. 13). Investors are willing to pay such a premium because they expect future growth as the result of what Schumpeter (1942) called ‘creative destruction’. It comprises the process of continuously destroying the old and continuously building the new (Schumpeter, 1942). This process of ‘creative destruction’ is in fact what occurs when firms innovate. Companies thus realize growth by innovating. Hence the willingness of investors to pay an innovation premium on top of the stock price.

2.3 The role of exploration and exploitation in franchise systems

In the previous section, it is argued that innovativeness depends on the extent to which a company pursues new ideas and its ability of putting these ideas into innovations. In the literature, this is referred to as the ability of an organization to engage into exploration and exploitation activities (Gupta, Smith, & Shalley, 2006; March, 1991). Exploration is about exploring new avenues unknown to the company through experimentation, risk taking and innovating. The return from exploratory activities is uncertain and often negative (March, 1991). Whereas exploitation is about the refinement of existing competencies, technologies and paradigms required to gain the benefits of explorative activities. The return from exploitation activities is therefore more predictable and often positive (March, 1991). According to March (1991) firms need to maintain an appropriate balance between exploration and exploitation activities in order to achieve optimal performance.

However, In the case of business model franchising, there is often an imbalance between exploration and exploitation activities. Business model franchising is based on the frequent replication of a business model. Replicating organizations create value by first discovering and adjusting a business model and then stabilizing it through large-scale replication (Winter & Szulanski, 2001; Winter, Szulanski, Ringov, & Jensen, 2011). Replication can thus be considered a process that begins with a phase of exploration in which a business model is created, followed by a phase of exploitation in which operational routines develop (Winter & Szulanski, 2001). The establishment and early growth of franchise organizations is often closely linked to a particular innovation, which means the focus is on exploratory activities. This focus later shifts to exploitation in lieu of exploration activities to gain value from the innovation. This imbalance between exploration and exploitation activities may result in long-term survival hazards in franchise organizations (Winter & Szulanski, 2001). Innovative franchise organizations however seem to succeed to combine innovation (e.g. exploration) activities with replication (e.g. exploitation) activities.

2.4 Innovation as adoption process

For firms to demonstrate innovativeness a well-managed innovation adoption process is paramount. From this perspective innovation is defined as the process of adopting an idea or behaviour new to the organization adopting the idea. This section will briefly review the available literature on innovation as a process, and particularly the innovation adoption process.

Innovation as a process can essentially be divided into two streams. As a process by which innovations are initiated, developed and implemented in its entirety by an organization. And as a process by which organizations adopt innovations that have been developed elsewhere (Ven et al., 2000).

Early studies conceptualized innovation adoption as a two-staged process consisting of an initiation and implementation stage (Damanpour, 1996; Rogers, 1995; Zaltman, Duncan, Holbek, & others, 1973). Wolfe (1994) on the other hand argued that the innovation process is more complex and consists of ten distinct stages of which adoption is one of the stages (Wolfe, 1994). Damanpour (1996) in his research argued that more complex stage models are not backed up by any empirical evidence. However, there seems to be academic consensus on the use of a ‘unitary sequence model’ that divides the innovation adoption process into three distinct phases: initiation, adoption decision and implementation (Damanpour & Schneider, 2006; Pichlak, 2016). In figure 2.1 the adoption process is graphically depicted. In the next section a brief description of the three distinct phases is provided.

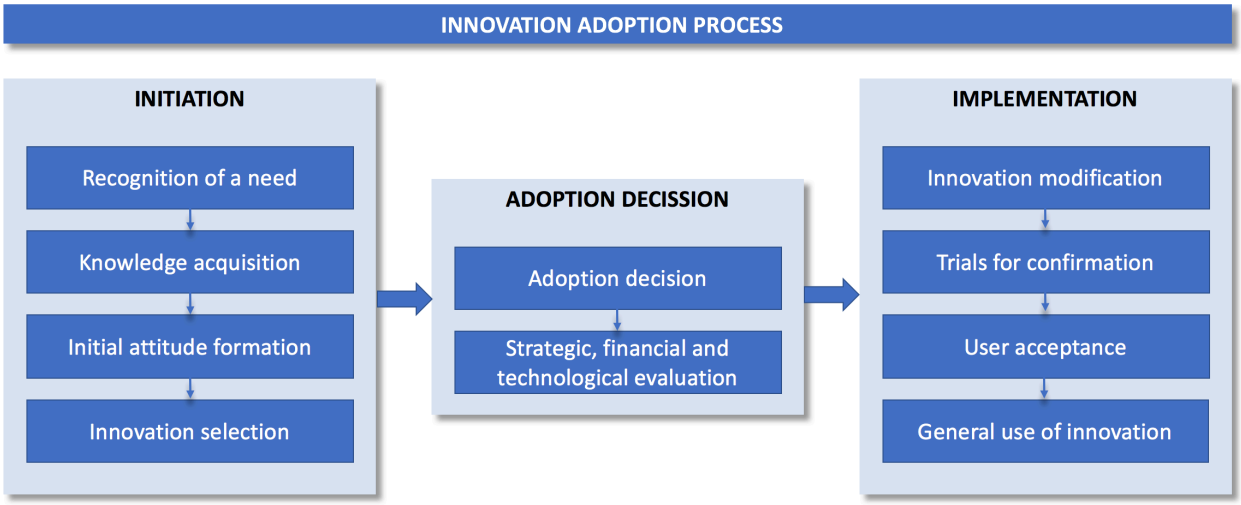

Figure 2.1 - (Pichlak, 2016, p. 479)

Initiation

The initiation phase consists of activities that concern recognizing a need for change, searching for solutions, exploring existing innovations, forming a positive attitude towards it, and bringing innovations forward for adoption (Damanpour & Schneider, 2006; Pichlak, 2016).

Adoption decision

In this phase, the organization evaluates innovations on their strategic, financial and technical value. Based on the outcome the top organizational echelons (managers, boards, committees) decide if an innovation is the preferred solution, and subsequently allocate resources for it (Damanpour & Schneider, 2006).

Implementation

The implementation phase consists of activities that concern modifying an innovation, prepare the organization for its use, trial use, the acceptance, and routinization of an innovation (Damanpour & Schneider, 2006).

2.5 Summary

In this chapter, the concepts of innovation and innovativeness have been explained. A clear distinction between these two concepts was made. While innovativeness is about the willingness and ability of an organization to innovate, innovation is about the organizational process involving the initiation, adoption decision and implementation of novel ideas. Innovativeness is therefore the outcome of a successfully managed innovation adoption process. In a co-creation strategy, the successful adoption of innovations becomes more important since innovative ideas often come from outside the organization. Highly innovative organizations have found ways to drive the adoption of innovations. They consider innovativeness to be a fundamental aspect of their organizational strategy and put a strong focus on both structuring the organisation in support of innovations, as well as creating the right climate and culture to promote innovative behaviour. Such organizations also appear to be able to establish a good balance between exploration and exploitation activities. This appears to be challenging for franchise organizations as the focus is mostly on replicating activities.

3. CO-CREATION

This chapter argues that an outward innovation focus, in which co-creation plays a dominant role, can positively contribute a firm's innovativeness. The first paragraph will explain what co-creation is and how it differs from traditional ways of innovating. The paragraph thereafter, section 3.2, discusses what the relationship of open innovation is to co-creation, why it is important and how it contributes to the innovativeness of companies. The final paragraph describes how co-creation can contribute to the innovation process and argues why a firm's strong 'relational capacity' is essential in co-creating value with partners and customer. This chapter concludes with a summary.

3.1 From a G-D logic towards a S-D logic

Technological advancements have gradually transformed the role of consumers from isolated to connected, and from unware to informed. This change made customers shift from passive bystanders into being active participants in the value creation process. Traditionally companies were accustomed to design new products and services independently and with little or no help from customers (Prahalad & Ramaswamy, 2004). This inward perspective is also referred to as goods-dominant (G-D) logic. The role of the firm and consumer are strictly separated in the G-D logic. In this logic value creation is believed to be a series of activities executed by a company (Vargo, Maglio, & Akaka, 2008). Vargo et al. (2008) provide a good example; consider for instance an automobile manufacturer that constructs a car out of raw material. According to G-D logic, the manufacturer creates value by bringing various raw materials together, which in the end results in an automobile that customers want. Value is ultimately created in the form of a good, and its value is measured by what the marketplace is willing to pay (Vargo et al., 2008). In the G-D logic, offering products to consumers is naturally seen as the final stage of the value chain (Ramaswamy, 2009). The orientation of G-D logic is

thus purely focused on the output of products and does not include much involvement of customers.

However, firms that maintain an independent stance are no longer accepted by customers. Prahalad et al. (2004) postulate that: “Consumers now seek to exercise their influence in every part of the business system. Armed with new tools and dissatisfied with available choices, consumers want to interact with firms and thereby co-create value” (Prahalad & Ramaswamy, 2004, p. 5). To accommodate in this need of customers wanting to be involved, firms started to focus on providing complete solutions for customers instead of short lived products (Shepherd & Ahmed, 2000). With this shift in focus, firms moved away from the prevalent G-D logic, in which the exchange of tangible goods play a central role. And progressed toward an inclusive outward focussed service-dominant (S-D) logic, in which the exchange of intangibles, such as skills, knowledge and processes are combined with goods to create value for customers (Vargo & Lusch, 2004, 2008). S-D logic entails that all producers are basically service providers and the role of producer and consumer are not distinct but intertwined. Value is in this logic always co-created. In the S-D logic value is measured by value-in-use or value-in-context; these are the benefits created for a specific consumer under a specific use and in a specific context (Edvardsson, Tronvoll, & Gruber, 2011; Vargo et al., 2008). When applying the S-D logic to the example of the automobile manufacturer again, the automobile is considered an input, and value is created when customers can put the automobile to good use. In this case, value is not exclusively created by the manufacturer, but in co-creation with customers. The manufacturer adds knowledge and skills in producing and marketing of the goods. Customers on the other hand, integrate their knowledge and skills, and use goods in the context of their own lives (Vargo et al., 2008). Both firm and customers become resource integrators (Edvardsson et al., 2011). In terms of S-D logic value creation is not a one-way street, hence value is not only reaped by customers but by firms as well. Customers provide services by adding resources, most often in the form of money, which firms

can utilize for other value creating activities. Co-creation is therefore a reciprocal and mutually beneficial relationship (Edvardsson et al., 2011; Vargo et al., 2008).

3.2 Forms of co-creation with customers

Customer co-creation involves two key processes: (1) contribution in the form of submitting ideas and (2) the selection of what ideas will be used (OHern & Rindfleisch, 2010). According to OHern & Rindfleish (2010) the type and format of customer contributions can vary from highly controlled by a firm to completely open for customer input. Subsequently, the selection of contributions can be customer directed or firm directed. When Co-creation is arranged along the dimensions of contribution and selection it can be further broken down into four distinct types (1) collaborating, (2) tinkering, (3) co-designing and (4) submitting (OHern & Rindfleisch, 2010). The typology of OHern & Rindfleish (2010) is depicted in figure 3.1.

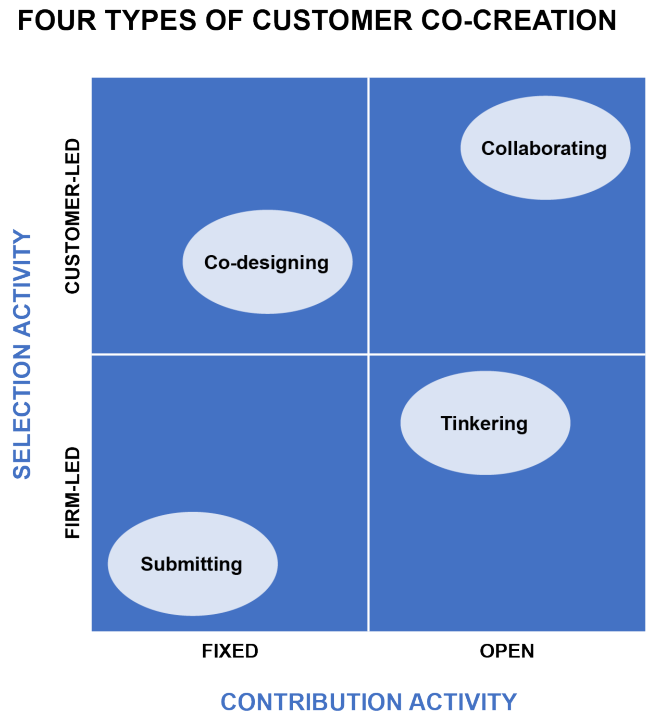

Figure 3.1 - (OHern & Rindfleisch, 2010)

Collaborating

Collaborating is a co-creation form that offers customers the most power in comparison to the other forms. Collaborating allows customers to contribute ideas and decide which ideas should be added to a product or service offering of a firm. The best examples of the collaborating co-creation form can be found in the open source software development space where consumers can make fundamental changes to a program's basic structure. Examples are Apache webserver, Linux and Firefox (OHern & Rindfleisch, 2010). Collaborating can be used by firms to reduce development costs as work shifts from salaried employees to unpaid customers. It further fuels ongoing product development (OHern & Rindfleisch, 2010). While this form of co-creation offers substantial benefits it also comes with some challenges. First, it is most suitable for information rich purposes, such as software development or medical research and as a result less suitable for more traditional industries such as packaged goods. Secondly, successful collaboration requires firms to give up managerial authority in the contribution and selection process. It also requires firms to become more relaxed about the need to controle their intellectual property (OHern & Rindfleisch, 2010).

Tinkering

Tinkering is a co-creation form in which a firm allows customers to make modifications to a commercially available product. Such contributions can at some point in time find their way into a firm's product releases. Tinkering offers, similar to collaborating, customers a high degree of contribution autonomy, nevertheless firms that use tinkering maintain considerable authority over the selection of contributions (OHern & Rindfleisch, 2010). Examples of tinkering are also, like in the collaborating form, mostly found in the computer industry. Good examples of tinkering are computer gaming companies that allow consumers to make modifications to for instance characters or levels by providing specific design tools. In contrast to collaborating, tinkering provides firms with more control over their intellectual property as tinkerers do not have

unlimited access to source code. This limits the scope of product innovations tinkerers can contribute (OHern & Rindfleisch, 2010).

Co-designing

Co-designing involves the participation of a small group of customers providing a firm with new product ideas or designs, while a larger customer group is asked to help select what products or designs should be added to the product or service offering (OHern & Rindfleisch, 2010). Examples of co-designing can be found in online news services or cable television channels that ask their customers to vote on stories that they would like to see published or broadcasted. Another good example is the clothing manufacturer Threadless.com that invites its customer to submit new T-shirt designs (OHern & Rindfleisch, 2010). In contrast to tinkering the format in which product ideas are submitted is mostly controlled by the firm. The great benefit for firms using co-designing is that the it reduces the costs of creating original designs, since these are in this form submitted by customers. Furthermore, it allows firms to reduce the cycle time of launching new products, as customers help in both contributing and selecting the content of new product releases (OHern & Rindfleisch, 2010).

Submitting

Submitting co-creation form is characterized by the least amount of autonomy in both content contribution and selection. Submitting does differ from traditional forms of customer participation such as focus groups or satisfaction surveys though. The main distinction is that submitting requires a high amount of customer involvement. Customers are expected to come up, either individually or as part of a team, with novel ideas for new product or service offerings (OHern & Rindfleisch, 2010). A good example of the submitting co-creation form is the Swedish appliance manufacturer Electrolux that challenges its customers, in return for cash prizes, to submit technical designs for new household appliances (OHern & Rindfleisch, 2010). This form

of co-creation can significantly reduce the time necessary to develop a new product or service. Moreover, it can increase the level of innovativeness of product and service offerings (OHern & Rindfleisch, 2010).

3.3 Open innovation

Nonetheless, co-creation cannot exclusively take place between a firm and its customers since environments reach higher levels of complexity. Primarily due to customers becoming more demanding, markets more competitive, technology aging faster, and product life-cycles shorter (Shepherd & Ahmed, 2000). This makes it virtually impossible for a single organisation to possess all the necessary skills to deliver effective customers solutions in time. To overcome this, organisations need to work together with suppliers and business partners as well. And use each other's specific knowledge and skills to produce integrated solutions for customers. (Shepherd & Ahmed, 2000; Windahl & Lakemond, 2006).

Consequently, the innovation paradigm of companies must shift from closed to a paradigm that is open for innovations that come from outside the organisation. This paradigm shift was first coined by Chesbrough (2006). He made a distinction between 'closed innovation' and 'open innovation'. Organizations that innovate according to the closed innovation paradigm take on the view that successful innovation requires being in strict control of the innovation process. These organizations generate ideas, develop them, build them, finance them, and market them without the help of others (Chesbrough, 2006). In that sense closed innovation follows the G-D logic. The open innovation paradigm on the other hand is defined by Chesbrough as: "a paradigm that assumes that firms can and should use external ideas as well as internal ideas, and internal and external paths to market, as firms look to advance their technology" (Chesbrough, 2006, p. xxiv). And as such, open innovation is closely linked to the S-D logic. Open innovation makes a distinction between three core processes (figure 3.1): (1) The outside-in process: Complementing the organisations own knowledge by integrating

suppliers, customers and other knowledge sources with the aim of becoming more innovative. (2) The inside-out process: Obtaining profits by bringing ideas or intellectual property to the market. (3) The coupled-process: Linking the outside-in with the inside-out processes by working in co-operation with complementing partners in which give and take is crucial for success (Chesbrough, 2006; Enkel, Gassmann, & Chesbrough, 2009; Gassmann & Enkel, 2004). It is the coupled process that refers to co-creation with complementary partners, end-users and consumers (Enkel et al., 2009). Co-creation and the coupled process of open innovation are therefore strongly related to each other. Whereas co-creation is about firm's collaborating with customers, open innovation is about firms collaborating with other firms.

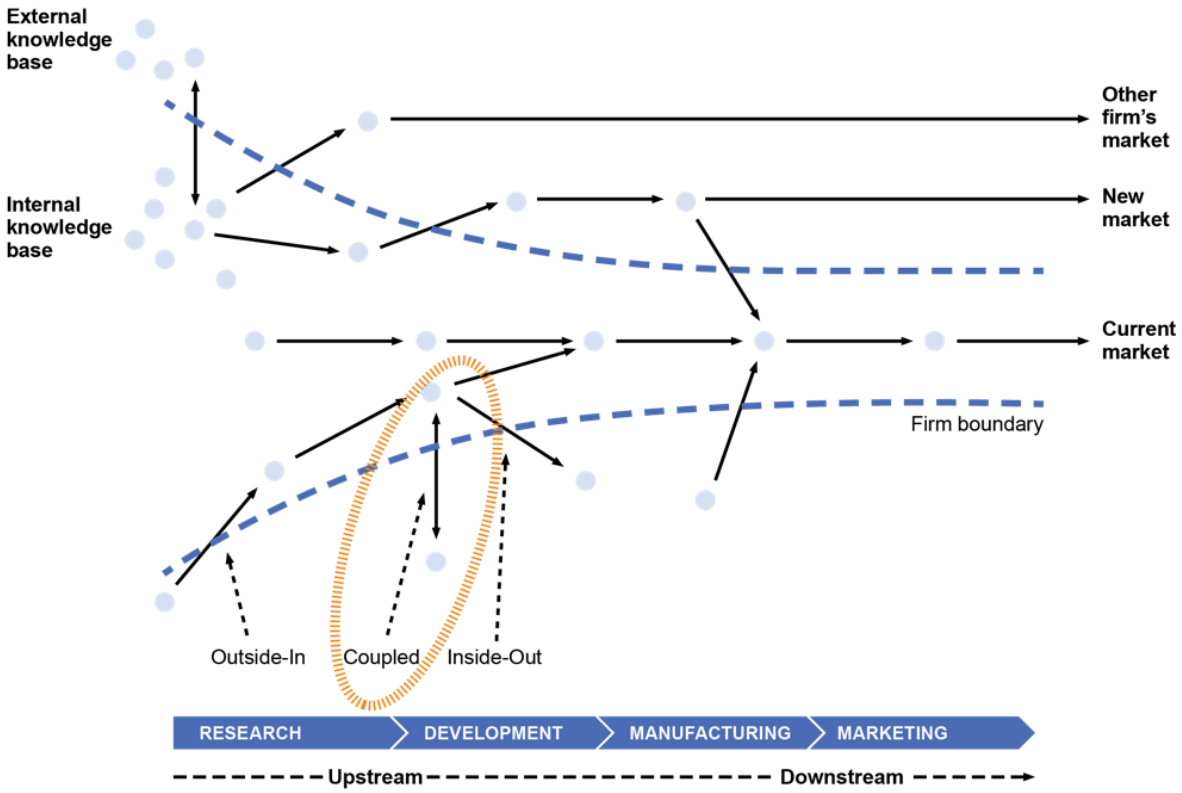

Figure 3.1

3.4 Co-creation as innovation driver

Fundamentally, co-creation transforms markets into forums that facilitate dialogues among consumers, consumer communities, firms, and networks of firms (Prahalad & Ramaswamy, 2004). Utilizing a co-creation strategy can drive innovations of companies considerably. Co-creation can for instance be leveraged by firms in the ideation stage of developing innovative solutions for customers. Ramaswamy (2010) describes the case of Orange, the operating brand of French telecom, which applied a coupled open innovation approach through a web-based Livebox lab engagement program. In this program, external partners were encouraged to submit innovative ideas, and co-create complementary products and services for customers of Orange. In this way, Orange obtained many ideas for innovation that would otherwise not have been generated.

It's however imperative for firms, employing a co-creation strategy, to develop a strong 'relational capacity'. This is the capability to build and maintain relationships with complementary companies (Gassmann & Enkel, 2004). Being able to maintain good relationships is important when innovations are being jointly developed with partners (Dyer & Singh, 1998).

That firms should put more focus on building strong relationships with a wider business network is further underscored by the research of Windahl and Lakemond (2006). They argue that when complementary competence is needed the dependence on strong inter-firm relationships increases, and is as such a strong driver for innovation and value creation (Windahl & Lakemond, 2006). Notwithstanding the foregoing, building strong inter-firm networks is not a guarantee for effective co-creation. Much depends on the scope and complementarity of the resources within the network, and the level of trust and willingness in sharing customer information. Besides complementarity and trust it is critical that suppliers have a mutual understanding of the customer problem (Hakanen & Jaakkola, 2012).

Apart from the ideation stage of the innovation process in which co-creation can be leveraged, suppliers, end-users and consumers can also be involved in the design, refinement and testing stages of innovations (Füller, 2010).

3.5 Summary

In conclusion, consumers are becoming more informed and want to be actively involved in the value creation process of firms. Due to rapid technological advancements technology is outdated faster than ever before, and product life-cycles increasingly shorter. Presently firms need to operate in complex fast changing environments. Consequently, it is virtually impossible for a single company to possess all skills required to operate in such highly dynamic environments. Companies thus need to find ways to collaborate in co-creation with partners, customers and suppliers. By using a coupled open innovation approach, in which complementarity, trust, and strong inter-firm relationships are central, companies can innovate jointly. By doing so firms can tap into the skills and resources of each other and offer innovations that really solve customer problems. As such, employing a co-creation strategy has become an important driver for organizational innovativeness.

4. FRANCHISE SYSTEMS

Turning novel ideas into innovations that are adopted is quite a challenge for most organizations. For franchise organizations, it seems to be an even harder thing to do. This chapter will first start by explaining what a franchising is from the perspective of the agency theory. Thereafter several reasons will be laid out why innovative behaviour is often impeded in franchise systems. The paragraph will end by highlighting how a dual distribution form can drive innovation adoption in franchise systems.

4.1 Franchising from the agency theory perspective

A franchise system is an organizational form in which business concept development and strategy formulation are carried out by one single legal entity and the execution by many legal entities (Shane, 2005). Franchising can be split into two general business models: product franchising and business model franchising. With product franchising, one party, the franchisee is granted the right to sell products with the tradename of another party, the franchisor. Business model franchising on the other hand extends product franchising with licensing an operating system as well (Price, 1997; Shane, 2005). Employing a franchise system makes most sense when: (1) customers are dispersed over geographic locations; (2) the distribution of product and services cannot be handled from one centralized location; (3) the brand name is an important competitive advantage; (4) external capital is needed for rapid growth to reach economies of scale and gain quick access to desirable outlet locations. Consequently, running a franchise system is more suitable in the retail industry than the manufacturing industry (Price, 1997; Shane, 2005).

One of the main reasons for organizations to decide to franchise their operations is that rapid growth is required to reach economies of scale, and by this profitability. Opening company-owned outlets requires a considerable up-front investment nevertheless. Through

franchising this investment is shifted to franchisees, this decreases the costs associated with growth for franchisor's (Price, 1997).

Another important reason is that franchising solves the monitoring cost problem described by the agency theory (Carney & Gedajlovic, 1991). This theory attempts to explain the common relationship, in which a party (the principal) delegates work to another (the agent) who performs that work, using the metaphor of a contract (Eisenhardt, 1989a). In traditional organizations, the cost of monitoring the performance of company-owned outlets is higher than in franchise operated organizations. This is because franchisees are compensated by the profits of the outlets they franchise, meaning that franchisees are financially motivated to work themselves and their employees harder to increase revenues. In company owned-outlets, managed by corporate employees, such motivation is lacking and monitoring costs are therefore substantially higher (Price, 1997; Shane, 2005). Another factor reducing the cost of monitoring is that franchisees must invest capital, which is reducing an inclination to engage into opportunistic behaviour, since such behaviour could jeopardize a return on investment (Price, 1997; Shane, 2005).

While franchising saves upon monitoring costs, franchisors have less control on franchisees as opposed to the level of control in a traditional employer-employee relationship. Franchisors therefore need to assure that the business model is not altered by franchisees (Price, 1997). To accomplish this, franchisors create rigid policies and procedures written down in contracts which are to be signed by franchisees (Shane, 2005). And as such, franchisors pursue uniformity and conformity instead of creativity and innovation. Franchisees that are brave enough to stray away from the rules though, often face penalties or even worse, contract termination. An emphasis on control has however a stifling effect on the innovativeness of franchisees and their willingness to adopt innovations (Bradach, 1997; Price, 1997).

4.2 Innovation drivers in franchise systems

There are drivers that promote the adoption of innovations in franchise systems as well. One driver described in the literature is the dual distribution or plural franchise form, which promotes innovativeness and accelerates system wide adaptation (Bradach, 1997; Hendrikse & Jiang, 2011; Lewin-Solomons, 1999). Another driver of innovativeness in franchise systems are franchisees that assume the role of frantrepreneur (Sundbo, Johnston, Mattsson, & Millett, 2001).

The dual distribution franchise form

The dual distribution form uses a combination of company owned outlets and franchised outlets which facilitates both exploration and exploitation activities. Exploration is needed for the initiation of innovations and exploitation for the adoption of innovations (Bradach, 1997). Company-owned units exploit and refine existing routines while franchisees explore new resources and novel routines. A good balance between company-owned and franchised units can therefore be complementary to each other (Hendrikse & Jiang, 2011).

Another important factor of the dual distribution form is that operating a balanced number of company-owned outlets can be leveraged to convince franchisees to adopt innovations. By providing performance data and showing that innovations work in company-owned outlets, franchisees can be persuaded to adopt system wide innovations. It also provides a strong signal to franchisees that only profitable innovations are pursued (Hendrikse & Jiang, 2011; Lewin-Solomons, 1999). By using a dual distribution form, franchisors can move away from using threats of contract termination and instead use persuasion for the adoption of innovations (Bradach, 1997). When using a dual distribution form, the informal power of authority within the franchise system might shift though. When the relative number of franchisees increases as opposed to company owned outlets, franchisees become more numerous and subsequently better organized. Moreover, the franchisor becomes less informed

about the operational side of the business and are viewed less competent by franchisees. Which can result in a distrust towards innovative initiatives of the franchisor. Testing new initiatives becomes more difficult as well, since support from franchisees is required when the number of company-owned outlets is limited or non-existent (Lewin-Solomons, 1999). It is therefore imperative that the franchisor maintains a good balance between company-owned and franchised outlets.

The frantrepreneur

Franchisees cannot be considered entrepreneurs in the most classical sense. Largely because franchisees are not the founders of a new company. They enter an existing, most often well proven, business instead. As a result, the risks for franchisees are significantly lower when compared to entrepreneurs that build a business from the ground up. (Price, 1997; Sundbo et al., 2001). However, one cannot say that all franchisees are not entrepreneurs. Entrepreneurship is about a behaviour rather than a personality characteristic. Entrepreneurs are people who want to do things differently instead of the same things better. It is a person who, in Schumpeter's terms, facilitates and drives the process of ‘creative destruction’ (Drucker, 1985; Schumpeter, 1942).

To make a clear distinction between the classical entrepreneur and franchisees, Sundbo et al. (2001) named franchisees acting as change agents and so driving creative destruction, frantrepreneurs. Frantrepreneurs start looking for change when a franchisors business concept does not work for the local market. According to Sundbo (2001) frantrepreneurs are: “enterprising business people who just cannot accept the dysfunctionality of the standard concept and the franchisors’ decisions” (p. 265). They show entrepreneurial behaviour by taking the initiative to adjust the franchise concept to their own local version. Frantrepreneurs, are in comparison to classical entrepreneurs, defined by three main attributes: that of adopting a role, a strategy and scope concerning the innovation of the franchisors business concept (Sundbo et

al., 2001). By further standardizing and adapting the service concept to the local needs, the frantrepreneur assumes a partner role and directly contributes to the franchisors strategy. The innovation scope is limited since it is designed to fulfil a local need (Sundbo et al., 2001). Because of it, innovations of frantrepreneurs are rather small and mostly concern incremental changes to the existing business model of the franchisor. These incremental innovations are yet important since they have the potential to fine-tune a franchise system, and therefore can provide a real competitive operational advantage. Such a competitive advantage can only be fully exploited when franchisors are able to persuade franchisees to adopt innovations of frantrepreneurs (Sundbo et al., 2001). Besides a competitive advantage, the relationship in terms of power, between franchisor and franchisee, may become more symmetric. Mainly because frantrepreneurs cause knowledge sharing to emerge between franchisor and franchisees and as such play an important role in smoothing the adaptation and adoption of innovations in franchise systems (Sundbo et al., 2001).

4.3 Innovation barriers in franchise systems

Apart from standardization and conformity policies hampering innovativeness, there are several specific factors that prevent or drive the adoption of innovations in franchise systems. First, it's very difficult for franchisors to get franchisors to adopt innovations. In comparison to company-owned outlets, the process of adoption is much slower and time consuming in franchise systems. Primarily because franchisors have no direct authority over franchisees as opposed to the way managers can enforce certain behaviour of their employees. The reason being that negotiated contracts between franchisor and franchisees do not allow franchisors to enforce franchisees what to do (Shane, 2005). Second, innovations of strategic importance can be perceived as opportunistic or one sided by franchisees, leading to trust issues and adoption resistance. Which can be the case for instance, when the franchisor decides to innovate the business model by offering customers the option to purchase online. By innovating the business

model franchisees could fear that they are being by passed, and that their profits will eventually decline (Price, 1997).

4.4 Summary

In sum, Typical for franchise organizations is that there is a strong emphasis on standardization and control which has a dampening effect on innovativeness. An important factor that hinders the adoption of innovations is the limited authority of franchisors over franchisees making it difficult to enforce innovations. Moreover, trust is often lacking due to franchisors being perceived as opportunistic by franchisees. Fortunately, operating a dual distribution system can build trust and remove the need for using authority to push innovations in franchise systems. Another driving factor of innovativeness in franchise systems is the frantrepreneur. Franchisors that create room for frantrepreneurs to bring innovations forward can make the relationship between franchisor and franchisee more symmetric, resulting in an organizational climate that is more innovative and in which innovations become easier adopted.

5. METHODOLOGY AND DATA COLLECTION

5.1 Research strategy

This study seeks to explain what innovative franchise organisations do differently in comparison to non-innovative franchise organisations. As a result, a qualitative multiple case study research design will be used as it is most suitable for explanation generation of phenomena not yet understood (Crabtree & Miller, 1999; Voss, Tsikriktsis, & Frohlich, 2002; Yin, 1981). In addition, case studies are extremely suitable for comprehending phenomena that are inseparable from a particular context (Yin, 1981). Consequently, making it highly relevant as the research approach for this thesis since the boundaries between phenomena and context are not distinct. Another advantage of case based research is that 'how' questions can be answered with a relatively full insight into the nature and complexity phenomenon under investigation (Voss et al., 2002).

A retrospective case study approach is used instead of a longitudinal which is motivated by the fact that the success of innovation development and adoption is easier to determine in retrospect than longitudinal (Stuart, McCutcheon, Handfield, McLachlin, & Samson, 2002). Even though a multiple case study will be conducted, the aim of this research is not to search for generalizable outcomes across cases. On the contrary, this research aims to find specific differences from which best practices can be formulated by comparing two extreme case studies conducted at two franchise organizations operating in different industries. To identify these differences from which best practices can be derived a generic benchmark methodology will be used.

Benchmark analysis

While benchmarking is often employed as a management tool it is less commonly used as a research methodology. Nevertheless, benchmarking can be used alongside quantitative and qualitative research methodologies, such as case studies, when the process is subjected to the same rigor as any serious research study (David Longbottom, 2000). Benchmarking compares two parties: the exemplar demonstrating to excel in a process, strategy or behaviour and the anomalar under performing in these areas (John P. Moriarty & Clive Smallman, 2009).

Using benchmarking alongside case studies as a research methodology for this study is deemed most appropriate as it is ideal for identifying the highest standards of excellence (John P. Moriarty & Clive Smallman, 2009; Robert C. Camp, 1992). It can therefore be used to draw up best practices regarding the development and adoption of innovations in franchise systems. This research uses a generic benchmark approach, which means that organizations are compared from different industries. The outcome of a generic benchmark analysis is consequently more general than for instance competitive or functional benchmarking analysis (John P. Moriarty & Clive Smallman, 2009; Rodney McAdam & Michael Kelly, 2002). Due to this generic nature, it is deemed more likely that the best practices found can be applied across various industries.

Best practices were derived from two case studies conducted at one franchise organization (exemplar) demonstrating excellence in innovativeness and another one (anomalar) which is staying behind in innovativeness. The two cases were compared and analysed for gaps. Best practices were then formulated out of the identified gaps.

The two case studies are structured around six overarching themes:

1. Innovativeness;
2. Co-creation;
3. Open innovation;
4. The innovation adoption process;
5. Dual distribution;
6. Frantrepreneurship.

5.2 Data collection

For this research, data collection methods included secondary sources, onsite observations and interviews. To get a better impression of the themes under investigation secondary data analysis coming from desk research was carried out prior to conducting interviews with any of the identified respondents (Eisenhardt, 1989b; Voss et al., 2002). Additionally, secondary data was used for triangulating the case findings and to ask more rigorous questions during the interviews. Desk research consisted out of analysing secondary resources, such as franchisor and franchisee websites, published news articles and annual reports. Any observations made were recorded on a case by case basis. The conducted interviews followed a semi structured interview protocol based on six themes as mentioned in paragraph 5 and discussed in the literature review section of this thesis. The complete interview protocol has been added to the appendix section as appendix I.

Two pilot interviews were carried out at Intergamma in order to add rigor to the interview protocol (Voss et al., 2002). Responder bias was eliminated by interviewing a minimum of three respondents in different organizational capacities per case study (Voss et al., 2002). Collected interview data was written down immediately after conducting an interview. All interviews were recorded to accommodate accurate data processing in situations where multiple interviews were conducted in succession, and interview data could not be immediately processed (Voss et al.,

2002). Validity and reliability was further enhanced by presenting the research results to both DPE and Intergamma. Relevant feedback resulting from these presentations was added to the research results.

Sample strategy

Selecting an appropriate exemplar excelling on innovativeness was performed based on Forbes' 'The world's most innovative growth companies list'. Analysis of this list showed that Domino's Pizza's Enterprises Ltd., operating in the food retailing industry, ranked among the twenty most innovative growth companies in the world (Forbes, 2016). The Benelux branch of Domino's Pizza's Enterprises was approached and agreed to participate in the research as the exemplar franchise organization.

Domino's Pizza's Enterprises Ltd (DPE)

The Domino's brand is owned by Domino's Pizza, Inc., a US company listed on the New York Stock Exchange (NYSE). Domino's Pizza Enterprises Ltd (DPE), which has its head quarter in Brisbane Australia, bought the exclusive master franchise rights for the Domino's brand in Australia, New Zealand, France, Belgium, The Netherlands, Monaco, Japan and Germany in 1993. DPE has over 2000 retail outlets, making it the largest franchisee of the domino brand in the world (DPE, 2015). Besides being the largest franchisee of Domino's Pizza Inc., DPE is franchising more than two thirds of their stores to franchisees (DPE, 2016).

In fiscal year 2016 revenue increased by 32.4% to $930.2m which was largely driven by organic growth, acquisitions and first-to-market-innovations (Cowin, 2016). Innovations play a major role in the success of DPE. Several innovations in various geographic areas were launched in 2016 making a significant contribution to the overall growth of DPE. For example, for the Australian and New Zealand market, the world's first autonomous delivery vehicle Domino's Robotic Unit, was launched. In Japan, the GPS driver tracker was introduced, leaving

the competition behind in terms of performance (Cowin, 2016). For the years ahead, DPE has a strong focus on gaining growth from innovations. DPE plans to do this by introducing digital platforms and innovative solutions for customer (Cowin, 2016).

Interviews were conducted with 3 respondents at DPE Benelux headquarters. Interviewed respondents are listed in table 5.1 below.

Name	Function
André ten Wolde	CEO Netherlands & Belgium
Colm Connolly	European IT Director
Ringo Joannes	Operations Director Netherlands & Belgium

Table 5.1

Intergamma B.V., operating in the non-food retailing industry, served as the anomalar since innovations at Intergamma do not frequently emerge or materialize.

Intergamma B.V.

Intergamma, established in 1971, is a non-food retail franchise organization that provides consumers Do It Yourself (DIY) products and services. Intergamma has retail stores in both the Netherlands and Belgium. The retail formulas GAMMA and KARWEI are used to reach out to consumers in the Dutch market. While for Belgium only the GAMMA formula is used, slightly adapted to the needs of Belgium consumers.

Intergamma is regarded to be the market leader in The Netherlands, and in Europe one of the fifteen largest DIY retail organisations (Intergamma, 2017a). Almost all 386 retail outlets are operated by franchisees. Only 9 stores (less than 3%) are operated by Intergamma. Intergamma's strategy is rather conservative and has a strong focus on retaining revenues by implementing cost savings. Innovations are sometimes hindered as reaching agreement with

franchisees on finding the right balance between investing and cost savings are often a challenge for Intergamma (Intergamma, 2017b). Significant innovations in recent years have therefore been quite limited. The most remarkable innovation has been the modification of Intergamma's business model by adding e-commerce as a sales channel and enhancements in supply chain management.

Interviews were conducted with 5 respondents at Intergamma's Benelux headquarters. Interviewed respondents are listed in table 5.2 below.

Name	Function
Harm-Jan Stoter	CEO
Tom Bussink	CFO
Simon Hansen	CIO
André van Doorn	Manager Sales GAMMA
Laurens Miedema	Manager Marketing & Communication KARWEI

Table 5.2

6. RESULTS

This chapter begins by presenting the individual data analysis results of DPE and Intergamma in sections 6.1 and 6.2. The benchmark results are then given in section 6.3. The differences found will serve as the basis for the formulation of best practices in concluding chapter 7.

6.1 The case of DPE

6.1.1 Innovativeness

Innovating is an important part of DPE's DNA, predominantly because the company originated from innovating the pizza delivery process sixty years ago in the US. Main innovations that emerged at that time were insulated bags and conveyor belt ovens. DPE believes that being able to innovate frequently is an extremely important strategy to win in an environment that is becoming increasingly more competitive. According to DPE's CEO of the Benelux market: *"Innovating is absolutely necessary to survive the fierce competition in our market. Nowadays, it's not the big that eat the small but the fast that eat the slow. Fortunately, innovation is part of our DNA".* That innovation is a fundamental aspect of the corporate strategy is also evident from the rhetoric of DPE's annual reports. In the annual reports of the past six years, DPE made extensive reference to the realized innovations of the fiscal year. Moreover, the annual reports explicitly mention that further growth is expected from future innovations. The corporate strategy is also clearly translated in underlying strategic plans. Innovations for instance have become an integrated part of the marketing strategy. While in the past, the strategy solely consisted out of promotional related marketing communication. In Early 2017, DPE Benelux ran an 8-week campaign to create awareness among consumers about the ability to track the entire pizza delivery process in the Domino's Pizza App without any linked promotions.

That innovativeness is important for DPE's strategy is also reflected in the organizational structure. Management in the various countries consists almost exclusively of ex-franchisees who previously owned successful Domino's restaurants. The rationale of DPE behind this approach is that appointing ex-franchisees as directors builds trust among franchisees making it easier to convince franchisees to invest in certain innovations. *"We made our most successful franchisee director of operations and put him charge of our stores"*.

Another striking example in which the urge for innovation has translated into the organizational structure is the creation of an innovation lab.

In addition to the strategy, DPE believes that building a corporate culture that is open, informal and innovative is just as important. Employees are stimulated to spend at least 30% of their time on exploration activities: *"This is expected of everyone working at DPE, even the cleaners are encouraged to bring forward ideas for innovation. We welcome all ideas even bad ones".* While there is a clear hierarchical structure, the culture of DPE is quite young and informal. DPE implemented a social platform to break down communication barriers at all levels of the organization. The CEO of the Benelux now frequently receives questions coming from employees working in one of the 226 restaurants. *"I often receive 'why' questions from employees working at our restaurants which in some cases have led to modifications in our operation".*

6.1.2 Co-creation

Co-creating with customers is not widely applied as a strategy for innovation: "*It's not a common practice for DPE to involve customers in innovations efforts*". DPE however did experiment with co-creating value with customers. In August 2015, in cooperation with the Dutch radio station 538, a contest was held where radio listeners themselves could submit ideas for new pizza recipes. The winning pizza became a pizza on the menu of Domino's for a while. The fact that customers are not involved in co-creation activities is partly due to DPE's viewing

its employees as key customers: "*We are fortunate that we employ young people, which are customers as well. They submit many new ideas for innovation*".

6.1.3 Open innovation

Ideas for innovation come from both inside and outside the organization. Innovations brought forward by franchisees are mostly incremental in nature. For example, a new pizza variant or side dishes. Larger radical innovations mainly arise at DPE in Australia and the Netherlands.

DPE has established DLab in Amsterdam to facilitate co-production of innovations with other firms. DLab offers start-ups office space from which they can start their business and work on innovations. The conditions for a start-up to qualify for DLab are twofold. First, start-ups must produce an innovation contributing to DPE's business model. Secondly DPE has the right to be the first customer to make use of the innovation. DLab has proven to be a reliable source of innovations and has also ensured that DPE is considered innovative by third parties. *"Through DLab, we have gained a reputation of being open to new ideas. Consequently, we are increasingly approached by start-ups bringing forward novel ideas which are often materialized into innovations in close collaboration with DPE."*

Another source of innovation for DPE are open innovation networks. By using networks DPE found a solution for pizza pick-up orders that are often prepared too soon or too late. As a result, pizza quality improved, waiting times diminished and overall customer satisfaction increased. The open innovation network not only provides good ideas for difficult problems but often leads to close collaboration between DPE and start-ups. Some start-ups are offered to participate in DLab and are helped by DPE in launching a new product or service.

6.1.4 Innovation adoption

Franchisees involvement in the innovation adoption process of DPE is rather low. Table 6.1 provides a schematic overview of franchisee involvement per adoption phase.

At DPE franchisee involvement starts as late as the Implementation phase of the innovation adoption process. In the implementation phase, after successful trials in DPE's own stores, a by DPE carefully selected group of entrepreneurial franchisees is asked for advice. DPE has established a formal franchise advisory board to facilitate this. The Advisory Board is considered very important in creating support for innovations among franchisees: "*Our franchise advisory board consists of franchisees who are enthusiastic about innovating. This enthusiasm ultimately leads its way to other franchisees, creating support to invest in certain innovations*". The degree of power that franchisees can exercise in the decision whether to proceed with system wide replication is limited to giving advice. Hence, franchisees cannot formally block the implementation decision of an innovation. The decision-making authority to adopt an innovation lies entirely with DPE. In practice however, DPE will not exercise its authority when it appears that a large proportion of its franchisees oppose to the implementation of an innovation. In such cases, DPE tries to persuade franchisees to adopt an innovation based on expected ROI and brand value. Innovations are abandoned in case DPE is unsuccessful to convince most of its franchisees. Nonetheless, Innovations are imposed by DPE when the group of resisting franchisees is relatively small. To limit the power of influence franchisees can exercise, DPE ensures that franchisees cannot hold more than 10% of the total number of stores in the Benelux.

In the implementation phase, innovations are adapted to DPE's requirements and then tested in DPE's own restaurants. An innovation is only shared with the advisory board when an innovation has proven to meet the predefined requirements regarding ROI and brand value.

Based on ROI, brand value and the advice of the advisory board the decision is made to roll out an innovation to franchised restaurants. Franchisees are informed about forthcoming

innovations in individual conversations with leadership members. In these conversations is explained why the innovation is important for DPE's business: "*We inform our franchisees individually because franchisees cannot be approached in the same way. A cookie cutter approach does not suffice when trying to gain the support for an innovation*".

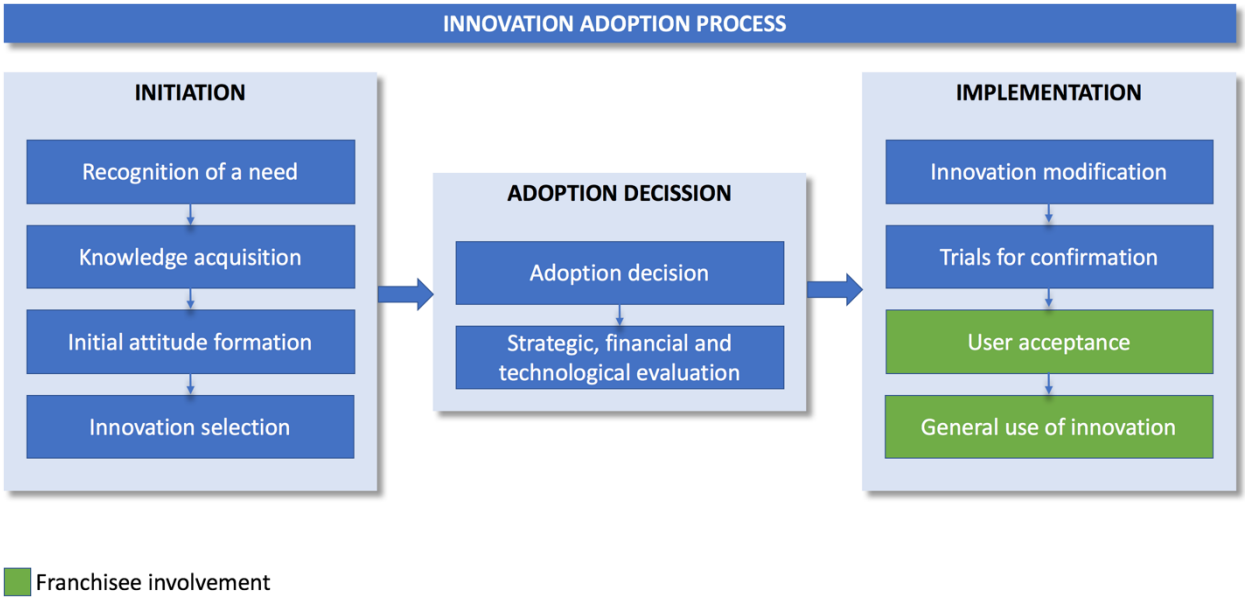

Figure 6.1 – franchisee involvement in the innovation adoption process of DPE

6.1.5 Dual distribution

In the Benelux, DPE operates a total of 226 stores, of which 30 are exploited by DPE itself. The main reason for keeping own stores is that it enables DPE to build trust with its franchisees by showing to be an expert in operating restaurants. For this reason, DPE has purchased the best performing stores from its franchisees and appointed the best performing franchisee as the head of operations Benelux (COO). *"By appointing ex-franchisees, it became much easier to convince our franchisees to invest in innovations because they trust us to know what works and what not.". By o*ffering franchisees a management position the result was that

franchisees were more inclined to sell their restaurants, as most experienced franchisees were in need of new challenge after years of running multiple restaurants.

In addition, DPE's own stores are used to test innovations in the implementation phase of the innovation adoption process. Such tests are performed exclusively in DPE owned stores. With this approach, DPE ensures that franchisees do not develop a negative opinion about an innovation prior to system wide use, which could happen in the event of an innovation disturbing the operation of franchised restaurants. It also creates more room for DPE to innovate more radically because franchised stores are not negatively affected due to trial and error activities. Another reason for testing in corporate restaurants is that the success of innovations can be measured more objectively in corporate owned outlets as opposed to testing in franchised outlets: "*The testing of innovations must be done by ourselves because this is only a way to obtain objective data*". The results obtained are used by DPE to persuade franchisees to invest in an innovation.

6.1.6 Frantrepreneurship

Entrepreneurial franchisees are highly valued by DPE, since they are viewed as an important factor in persuading franchisees to adopt innovations. In addition, these entrepreneurs are also considered as an important source for incremental operational innovations. DPE facilitates frantrepreneurs by inviting them to take part in the franchise advisory board. Frantrepreneurs are asked to advise on innovations that have been successfully tested in DPE owned restaurants and have a proven ROI. This allows DPE to build enthusiasm among frantrepreneurs about innovations, ultimately finding its way to other franchisees and increasing the willingness to adopt. *"We offer entrepreneurial franchisees to take seat in the advisory board since they have a positive attitude towards change"*

The franchise advisory board not only provides advice on innovations. It also serves as a platform for DPE's most innovative franchisees to submit novel ideas: *"A lot of good ideas for new pizzas and process optimizations come from our entrepreneurial franchisees".*

6.2 The case of Intergamma

6.2.1 Innovativeness

Intergamma's senior leadership considers innovation to be important for Intergamma's business strategy. While there seems a clear ambition to innovate, this ambition is not reflected in an environment that encourages new ideas, novelties and experimentation. "*There are few initiatives that encourage innovative behaviour in our organisation. Most people are busy with the daily operation. There is little room to spend time on innovating and trying new things".* In addition, the ambition to innovate is not reflected in the corporate strategy, the organizational structure or a plan outlining innovative initiatives. Intergamma's innovation ambition is also not expressed in the rhetoric of the annual reports. Innovativeness at Intergamma therefore does not seem to go much further than an ambition to innovate.

The culture of Intergamma can best be described as a culture that is formal, risk averse, and lacking entrepreneurial behaviour. *"The emphasis is on doing things extremely well and not on doing the right things*". "*At Intergamma there is no collective drive to innovate, innovation is highly dependent on entrepreneurial individuals and third parties".* Intergamma is dominated by process and project managers who bring little creativity. New ideas are often formulated with the help of third parties. Individuals that do stand up, and propose new ideas, are not rewarded for this behaviour.

The lack of innovativeness has had an impact on the number of innovations that came to fruition in the past decade at Intergamma. Besides supply chain optimizations, minor proposition changes of formulas, and the addition of e-commerce to the business model none of the interviewed mentioned innovations of any significance. Innovations follow the market and can

be characterized as me-too innovations. According to interviewees innovations have not been progressive but rather necessary for Intergamma to maintain its competitive position.

6.2.2 Co-creation of value with customers

Co-creation of value with customers is not a strategy used by Intergamma. Although customers are involved in the innovation process, it is limited to customer panels. These panels are solely used to verify ideas that originated at Intergamma's head office.

6.2.3 Open innovation

Intergamma has a strong inward focus when crafting out ideas for innovation. Most ideas for innovation are derived from the business strategy developed by Intergamma's senior management with the help of external agencies. This top down approach does not leave much room for employee involvement. "*Employees of Intergamma are rather consulted but not asked to bring in novel ideas."* The submission of innovative ideas by franchisees are also rather scarce. "*Franchisees almost never come up with new ideas and if they do, it mostly concerns extremely small operational optimizations that cannot be labelled innovation."* However, in the past, KARWEI organized sessions at its retail stores in which employed students could submit ideas. While many good ideas originated from these sessions, KARWEI stopped involving students.

Intergamma does not participate in an open innovation network of any kind. Nor does Intergamma work in close collaboration with start-ups.

6.2.4 Innovation adoption

Franchisee involvement in Intergamma's innovation adoption process is quite high, as franchisees are involved in the various stages of the decision-making and implementation

phases. Table 6.2 provides a schematic overview of franchisee involvement per adoption phase.

The selection of innovations mainly occurs at Intergamma's headquarters. Formally, Intergamma is not at liberty to proceed with the implementation of an innovation without receiving approval of the franchisee council. Only innovations with low organizational impact and small financial investments are exempted from this rule. All other innovations must first be submitted to the franchisee council consisting of several franchisees owning a large percentage of retail stores. A complicating factor is that a major investment company has a stake of 49% in Intergamma, and is not always willing to invest in Intergamma due to investments made in other businesses. With the result that the adoption of innovations is sometimes blocked by the council. In such cases an innovation cannot be imposed by Intergamma. What follows is a long-term political process in which Intergamma seeks to convince the franchise council that an innovation must take place. On the positive side, when the council decides that an innovation should be implemented none of the franchisees outside the council can formally obstruct its implementation anymore.

However, the early involvement of franchisees in the innovation process may slow down the decision to implement an innovation considerably. By chance, Intergamma found that the implementation of a new KARWEI customer proposition took several months less than the implementation of a new GAMMA proposition. The difference between the approach of KARWEI and GAMMA was that KARWEI did not involve the franchisee council in the decision-making process. *"I'm convinced we implemented our customer proposition 7 months faster by not involving the franchisee council."* This approach did not impact the willingness of franchisees to invest in renovating their stores because the new proposition proved to be extremely successful in terms of ROI. *"We would have had a serious discussion with our franchisees in case the proposition proved unsuccessful".*

Another factor seemingly slowing down innovation adoption is Intergamma's preference for formal meetings to inform franchisees about innovations that require an investment. In some occasions, this developed into franchisees not entirely understanding the business value of certain innovations. As a result, a large group of franchisees opposed the innovation, making it extremely hard for Intergamma to change opinion around.

During the implementation phase innovations are piloted in stores of franchisees before system wide replication can take place. Retail stores participating in a pilot are appointed by the franchisee council. Intergamma's rationale for this approach is that the willingness among franchisees to adopt an innovation increases when tested in franchised retail outlets, since enthusiastic franchisees will convince other franchisees to adopt an innovation.

However, there have been innovations which were implemented after a comprehensive pilot, but were afterwards disregarded by franchisees. The main reason being that franchisees believed that the innovation was resulting in a negative margin on goods sold. Intergamma has not yet succeeded in convincing its franchisees that the innovation does not adversely affect the margin. Much seems to come from a distrust of franchisees towards Intergamma. *"There is some level of distrust towards Intergamma. Franchisees strongly believe that they know best how to operate a store."*

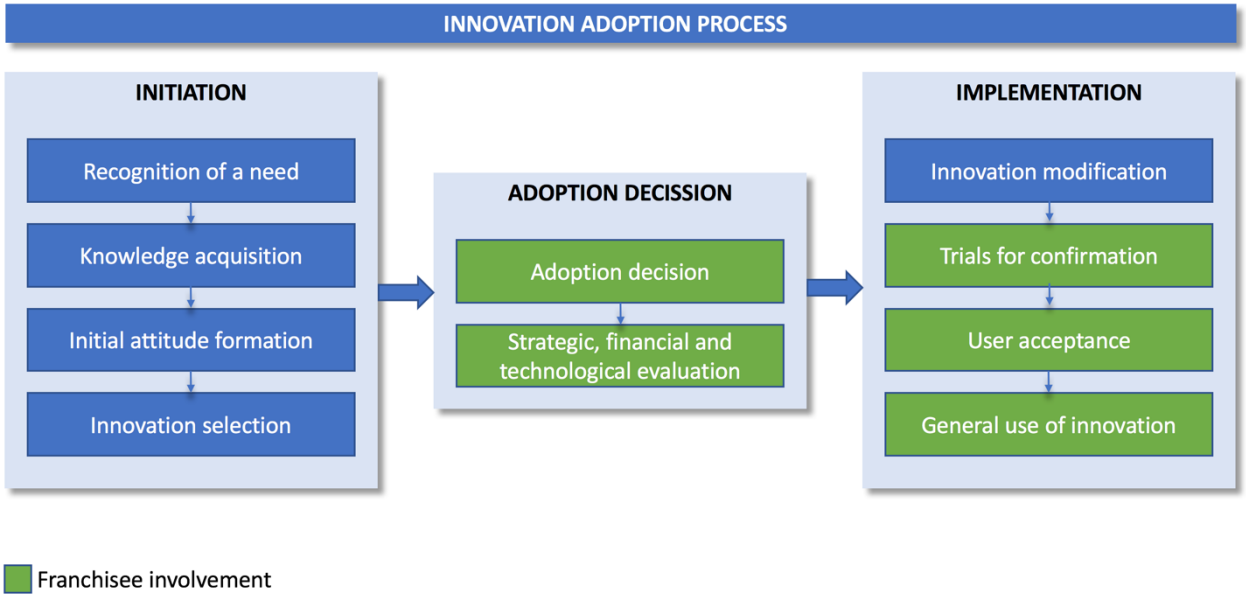

Figure 6.2 – franchisee involvement in the innovation adoption process of Intergamma

6.2.5 Dual distribution

In the Benelux Intergamma operates 386 retail outlets of which 9 stores are company owned. Intergamma has recently started to use its own outlets to demonstrate the benefits of Work Force Management software to its franchisees. Franchisees have long resisted to implement centralized WFM software in a strong believe that they know best how work force efficiency is managed as opposed to Intergamma.

The Intergamma owned stores have also been leveraged to test the commercial success of the new KARWEI proposition. The required store renovation in support of the proposition was first tested at corporate owned stores.

Although Intergamma uses its own stores to increase franchisee's trust, and hence the adoption rates of innovations, testing of innovations in corporate owned stores has not yet become a standard practice. *"We prefer to test innovations in our franchised stores."*

6.2.6 Frantrepreneurship

Frantrepreneurship takes place on a very small scale and remains virtually invisible on a corporate level. When asked about local innovations by franchisees one interviewee mentioned: "*I know about a franchisee that started offering a 3D-printing service to its customers. Though hardly anyone knows about this innovation"*. This seems to be mainly because there is no official way for franchisees to submit local innovations. *"We do not have an official process or platform for franchisees to submit local innovations".* There are therefore no innovations known that originated at franchisees and made its way to other stores within the franchise system of Intergamma. Another reason for the lack of local entrepreneurship mentioned by interviewees is, that Intergamma is centrally organized and therefore leaving little room for local innovations. Franchisees also show little innovative behaviour, mainly because the operational results have been very good in recent decades. As a result, there was no perceived need to innovate. In addition, Intergamma has relatively many franchisees who are in their fifties and strongly prefer to keep things as they are.

7. BENCHMARK ANALYSIS

The following section provides the results of the benchmark analysis and the resulting best practices. Table 7.1 summarizes the main differences between DPE and Intergamma compared to the six themes studied.

	Domino's Pizza Enterprises (Exemplar)	Intergamma (Anomalar)
Innovativeness	• Innovativeness is fundamental aspect of corporate strategy, deeply rooted in the corporate culture and rhetoric; • Actively builds an open and informal culture that is eager to innovate; • Designed organizational structure promoting innovativeness	• Ambition to be innovative is not reflected in corporate strategy, culture or rhetoric; • Nurtures a culture that is formal, risk averse and lacking entrepreneurship and creativity; • Organizational structure is not intentionally designed to promote innovativeness.
Co-creation of value with customers	• Co-creation of value with customers is not widely used; • Employees are viewed as important customers to create value with.	• Co-creation of value with customers is not used as a strategy for driving innovation; • Employees are not asked to bring forward ideas for innovation.
Open innovation	• Ideas for innovation originate both inside and outside the company; • Collaborates with start-ups by means of DLab; • Applies open innovation according to the coupled process; • Uses an open innovation network for obtaining innovative ideas.	• Ideas for innovation emerge from inside the company and are mostly top-down; • Does not collaborate with start-ups; • Applies open innovation according to the outside-in process; • Does not use open innovation networks.
Innovation adoption	• Franchisee involvement in the innovation adoption process is minimal; • Innovations do not require a formal approval of franchisees prior to implementation; • Authority to impose innovations on franchisees; • One-on-one conversations to inform and convince franchisees of innovation initiatives.	• Franchisees are actively involved in the adoption decision and implementation stages of the innovation adoption process; • Innovations need the approval of franchisee council prior to implementation; • Franchisees have the authority to block innovations; • Formal meetings to inform and convince franchisees of innovations.
Dual distribution	• More than 10% of Benelux stores are company owned; • Strives to own best performing stores in order to gain trust from franchisees; • Uses exclusively company owned restaurants for testing innovations.	• Less than 3% of Benelux stores are company owned; • Some level of distrust among franchisees exist in regard to innovations; • Prefers to use stores of franchisees for testing innovations over company owned stores.
Frantrepreneurship	• Entrepreneurial franchisees are offered a seat in the franchise advisory board.	• Frantrepreneurship is not facilitated nor rewarded by Intergamma.

Table 7.1 – comparison of exemplar and anomalar

7.1 Best practices

The next section describes eleven best practices that have been derived from the benchmark analysis by comparing the exemplar and anomalar.

Develop the hard and soft side of innovativeness

DPE considers innovativeness to be a fundamental aspect of the corporate strategy. This is clearly reflected in the organizational structure, rhetoric, and culture. Unlike Intergamma, whose ambition to be innovative is not expressed in the corporate strategy and is hindered by its culture. Likewise, the organizational structure of Intergamma is not intentionally designed to support innovation. Contrary to Intergamma, DPE attaches great importance to the development of the hard and soft side of innovation. Which seems to contribute to DPE's overall corporate innovativeness.

Limit the stake of investment firms and franchisees

System-wide replication of innovations at Intergamma, and hence the success of innovations, is to a certain extent determined by the willingness of a major investor to invest. In addition, there are several franchisees who franchise a large number of stores and thus have a relatively large influence on decision making. In some cases, this has resulted in innovations not being adopted throughout the franchise system.

Although DPE is listed at the Australian Stock Exchange, franchisees with a significant interest in DPE do not exist. Furthermore, DPE safeguards that franchisees own no more than 10% of the total restaurants. The influence that franchisors can exercise on decision making regarding innovations is thus limited, which seems to positively impact the system wide replication of innovations.

Build management teams consisting of ex-franchisees

More specifically related to franchise systems, the results indicate that management teams that consist of ex-franchisees raise trust in the operational know-how of the franchisor among franchisees. High level of trust is an important factor in convincing franchisees to invest and adopt innovations. The results indicate that two aspects are important when selecting franchisees to assume leadership positions: (1) Select franchisees who have had stores from the franchisor. (2) Select franchisees that are regarded highly successful in operating their stores.

Innovate according to the coupled open innovation paradigm

At DPE, innovative ideas originate inside and outside the organization. DPE's approach for obtaining ideas for innovation therefore follows the open innovation paradigm. Unlike Intergamma, where ideas for innovation usually originated from within the company and without much help from other firms. For the development of innovations both firms follow an open innovation approach. The difference is however, that DPE applies a different open innovation core process. DPE develops innovations according to a coupled open innovation process, by working in close collaboration with complementing start-ups in which give and take is the norm. By leveraging start-ups for exploratory activities, DPE manages to reduce the imbalance between exploration and exploitation activities. While Intergamma develops innovations according the outside-in process, complementing the organisations own knowledge by integrating third parties and other knowledge sources. With this approach Intergamma does not seem to be able to spend more time on explorative activities. This indicates that innovating with a coupled open innovation paradigm is preferred over the use of the outside-in open innovation paradigm.

Collaborate with start-ups and serve as launching customer

DPE has gained the reputation of being innovative by helping start-up companies to launch innovations through the DLab program. As a result, DPE is frequently approached by start-ups with novel ideas often resulting in the co-production of innovations. With this tactic DPE gains a competitive advantage as DPE demands of start-ups that it is the first to enter the market with a new co-produced product or service. Collaborating with start-ups is not part of the Intergamma strategy however, which could explain why the number of innovations has been quite limited the last few years. Hence, working in close collaboration with start-ups could promote the development of innovations.

Use open innovation networks to obtain creative solutions

DPE maintains good relationships with starting companies, by attending network meetings that facilitate the collaboration between corporates and start-ups. In many cases, this resulted in creative and innovative solutions for difficult to solve business problems. Attending open innovation networks could therefore be a good practice for obtaining ideas for innovation.

Limit the involvement of franchisees in the innovation adoption process

Franchisees involvement in the innovation adoption process of DPE is limited. Interestingly, franchisees are not involved in the decision whether to implement an innovation, and as such cannot formally block innovations. In contrast to Intergamma where franchisees play a major role in the adoption decision phase of the adoption process. Most innovations must first be approved by the franchise council before the implementation phase can start. As a result, it takes considerably longer before innovations can be taken into use. Striving for minimal engagement of franchisees in the innovation process seems to be a good practice that contributes to the adoption of innovations in franchise systems.

Test innovations exclusively in corporate owned outlets

All innovations are exclusively tested in DPE owned restaurants before innovations are tested and rolled out to franchised stores. With this approach, DPE ensures that the data obtained is objective, so it is certain whether or not an innovation has a positive ROI. By presenting only innovations that have proven ROI, the investment willingness of DPE's franchisees is very high. In addition, it reduces the risk that franchisees' attitude will be adversely affected by innovations that do not work well in the early stages of the trial phase. Which could ultimately lead to an unwillingness to invest and adopt innovations. This approach also enables DPE to frequently adapt innovations without disrupting the operation of franchisees, often resulting in more radical innovations.

Use corporate owned stores to build trust with franchisees

DPE believes that the best performing stores should be corporate owned, as this contributes to the trust that franchisees have in DPE. Through its corporate owned stores DPE can show to be an expert in operating restaurants, making it is much easier to convince franchisees to invest and adopt innovations. The findings further show that buying the best performing stores, and to have these managed by the best performing franchisee, can be a good tactic for obtaining and retaining operational excellence.

Encourage entrepreneurial franchisees to deliver feedback on innovations

DPE encourages frantrepreneurs to bring forward ideas for innovation by offering them a seat in the franchise advisory board. The results indicate that it has had a positive impact on the number of incremental innovations submitted by franchisees. Intergamma, in contrast, does not provide a platform to frantrepreneurs, and local incremental innovations therefore remain invisible. The results further indicate that frantrepreneurs have a positive attitude towards change, and can play an important role in convincing other franchisees to adopt innovations

proposed by DPE. By identifying frantrepreneurs and appointing them in an advisory role, DPE seems to be able to accelerate system wide adoption of innovations.

Inform franchisees of innovations individually

DPE prefers to convince its franchisees to invest in certain innovations through one-on-one conversations with leadership team members. By informing franchisees individually, DPE ensures that the business value of an innovation is well understood. This seemingly minimizes the chance that franchisees form a collective that rejects an innovation. While Intergamma prefers to convince a group of franchisees via formal meetings to invest in an innovation, which in some occasions developed in a group of franchisees not willing to invest.

Co-creation of value with customers

Co-creation of values with customers is not widely used as an innovation strategy by both DPE and Intergamma. Although DPE experimented with involving customers for idea generation, it did not become a standard practice. DPE does however view employees as important customers and encourages employees to bring forward innovative ideas. Nonetheless, co-creation of value with customers does not seem to be a significant factor promoting innovations at DPE. Co-creation of value with customers is therefore excluded as a best practice promoting the implementation and adoption of innovations in franchise systems.

7.2 Feasibility of best practice integration at Intergamma

In the next section for each best practice is discussed what the feasibility is for integration at Intergamma.

Developing the hard and soft side of innovativeness, includes establishing an organizational structure that promotes innovation and the creation of a culture that embraces innovation. Altering organizational structures in support of innovation takes effort, but can

nevertheless be achieved in a relatively short time. Changing the culture of an organization however is extremely difficult since culture consists of tacit assumptions and deeply rooted beliefs which take considerable time to unlearn. It is therefore expected that changing the culture will take extensive time and effort. Realising soft innovativeness therefore will be a major challenge for Intergamma.

Limiting the stake of investments firms and franchisees could be achieved by buying back franchised outlets. Implementing this best practice would require a significant investment from Intergamma which could prevent implementation in case capital cannot be acquired or made available. In addition, another complicating factor might be that franchisees are not willing to sell profitable stores. To persuade franchisees, Intergamma could apply the approach of DPE. DPE reached out to successful franchisees and offered them a management position in exchange for buying their stores. In this way, DPE was able to acquire stores and build a management team that consisted of directors that understand what it takes to run Domino's Pizza restaurants. By offering franchisees a challenging position in exchange of giving up their profitable stores made them more inclined to sell.

Building a management team consisting of ex-franchisees can be achieved in accordance with a buyback program as discussed in the previous paragraph. Implementing this best practice could take some time to implement when senior management is organically refreshed with ex-franchisees. To gain some benefits of this best practice, Intergamma could decide to appoint an ex-franchisee as COO. Unlike DPE, this role is not present at Intergamma. The results indicate that appointing an ex-franchisee as COO contributes to building trust with franchisees.

Innovation according to a linked open innovation paradigm can be applied by shifting from an outside-in innovation process to the coupled innovation process. This shift can be achieved by seeking external sources for innovative ideas such as start-ups or innovation networks. These external sources could lead to relationships with complementing companies in

which is closely collaborated on innovations. In order to work with complementing companies, it's essential for Intergamma to develop a strong relational capacity. Building and maintaining relationships with other complementary companies is not difficult to execute, but will take time to develop.

Limiting the involvement of franchisees in the innovation adoption process of Intergamma, is formally possible, and may not be too difficult to implement. This is underlined by KARWEI's customer proposition optimization. It showed that involving franchisees at the very end of the adoption process is accepted by franchisees when a positive innovation ROI can be demonstrated.

Testing innovations exclusively in corporate owned outlets is a prerequisite for reducing the involvement of franchisees in the innovation adoption process. Mainly because it ensures that objective data can be obtained which can be used to demonstrate a positive innovation ROI to franchisees. An impediment for Intergamma to exclusively test in company owned stores is the limited number of stores, this could make Intergamma still dependent on the support of franchisees. Intergamma therefore should increase the amount of company owned stores in order to fully reap the benefits of this best practice.

The same argument applies for using corporate owned stores to build trust with franchisees. Owning a very limited amount of stores results in the franchisor to become less informed about the operational side of the business and as such is viewed as less competent by its franchisees. Which in turn can result in a distrust towards innovative initiatives of the franchisor. For this best practice to be successful Intergamma should increase the number of company owned stores.

Encouraging entrepreneurial franchisees to deliver feedback on innovations should not be too difficult to implement, as it would require the establishment of a franchise advisory board, and the identification of frantrepreneurs. The results show that entrepreneurial franchisees exist at Intergamma hence finding frantrepreneurs should be a matter of reaching out to them.

Implementing the best practice to inform franchisees of innovations individually would require Intergamma to abandon the use of formal meetings to address a large group of franchisees, and start informing franchisees individually instead. Implementing this best practice.

8. CONCLUSION

This section describes the most important findings of this dissertation. Secondly, the implications of this study will be presented, which distinguishes between the theoretical and managerial implications. Finally, the limitations of this research are given as well as suggestions for future research.

8.1 Summary

This research highlighted how franchise organizations can promote the development and adoption of innovations. This was accomplished by comparing two franchise organizations, an exemplar and anomalar, resulting in several best practices promoting the development and adoption of innovations in franchise systems.

The defined best practices suggest that the development of innovations is promoted by innovating according to a coupled innovation process in which close relationships are established with starting companies. By collaborating with start-ups, franchise organizations can outsource the often missing early exploratory activities that are needed for the initiation of innovations. This could enable franchise organizations to restore possible imbalances between exploration and exploitation activities. Apart from innovating according to a coupled innovation process highly innovative organizations consider developing hard and soft innovation a fundamental aspect of their organizational strategy. The results revealed that developing hard and soft innovation could be just as important for the development and adoption of innovations in franchise systems.

The defined best practices further suggest that the adoption of innovations can be accelerated by involving franchisees as little as possible in the innovation adoption process. For this approach to be successful it is however important that there is sufficient confidence of franchisees in the franchisors operational expertise. Confidence of franchisees in the franchisor

can be built by company owned stores that excel in performance and by appointing ex-franchisees for executive functions. Another important condition for limiting the involvement of franchisees in the innovation adoption process is eliminating the dependency on franchised stores for the testing of innovations. This dependency can be removed when franchisors own a sufficient number of stores in which innovations are exclusively tested. Finally, the stake of franchisees in the franchise organization should be kept small in order to prevent franchisees from claiming their involvement in the decision and implementation phases of the adoption process.

This research did not find evidence for co-creation with customers to be important for the development and adoption of innovations in franchise systems.

8.2 Contributions to the literature

Over the past decades, many scholars researched the functioning of franchise systems, its benefits and shortcomings. There is however little literature about what promotes innovation in franchise systems. Some studies argue that innovation can be promoted through the use of a dual distribution franchise. Other studies provided evidence of frantrepreneurs contributing to innovation in franchise systems. These studies either investigated innovation from an organizational structure perspective or from an enterprising franchisee perspective.

This thesis took a different angle by looking at innovation from an innovation adoption process. By assuming this perspective, this research has contributed to the existing franchise literature on a couple of points.

First of all, this study provided empirical evidence that the franchisee's involvement should be limited to the final stages of the innovation adoption process, as this can significantly accelerate both the development and adoption of innovations in franchise systems.

Secondly this research confirmed the conclusions of Lewin-Solomons (1999) by validating that dual distribution franchising is needed to assure franchisees that only profitable innovations are implemented. It however also provided two new insights: (1) the use of a dual distribution franchise enables franchisors to innovate more radically and (2) the willingness of franchisees to adopt innovations is likely to increase when innovations are exclusively tested in company owned stores. Mainly because the use of company owned stores for testing innovations prevents franchisees from developing a negative attitude during the trial stages of the innovation adoption process. The use of a dual distribution franchise is thus an important condition for limiting franchisee involvement in the innovation adoption process. This research has further contributed to the theoretical field of dual distribution franchising by adding that franchisees can be persuaded to sell profitable stores by offering them a key position at the franchisor in exchange. Employing such a strategy could increase the feasibility of implementing dual distribution franchising. In addition, franchisees also gain more confidence in the franchisor because ex-franchisees fulfil key positions.

Thirdly, this study contributes to Sundbo et al. (2001) frantrepreneurship theory by adding that the partnership role of frantrepreneurs is not limited to the development of incremental innovations. Since frantrepreneurs seem to speed up the adoption of innovations in franchise systems if their partnership role is expanded to that of an advisor.

Finally, this research has shown that the often missing, and so much needed, exploratory activities in franchise systems can be carried out by innovating according to a coupled innovation process. By establishing co-creation relationships with start-ups, the imbalance between exploitation and exploration activities in franchise systems can be restored. Co-creation with customers on the other hand did not proof to be an important factor in promoting the development and adoption of innovations in franchise systems.

8.3 Limitations and suggestions for further research

This study used a qualitative benchmark analysis approach as its method of research for identifying best practices in innovation development and adoption. Although this research identified several best practices, integration at the anomalar could not be made part of the study. Consequently, it remains unknown if underlying factors, such as for instance specific core competencies, play a role in the successful integration of the identified best practices. Since the integration was not part of this research, it is also not known whether the best practices actually improve the development and approval of innovations in other franchise organizations. Further research should therefore shift the focus on investigating the required core competencies and validate if the by this research identified best practices promote innovation in franchise systems. Such research could also determine to which extent the best practices are transferrable to other franchise organizations operating in different industries.

In addition, this research compared two franchise organizations, the exemplar which operates in the food retail industry and the anomalar operating non-food retail industry. This approach has resulted in best practices that are very generic in nature, making them potentially applicable across industries. The disadvantage of this approach is however, that it also prevents industry-specific practices from being found. It is therefore suggested that researchers compare franchise organizations from similar industries as this could potentially lead to the identification of industry-specific best practices that promote the development and adoption of innovation.

8.4 Managerial implications

Developing hard and soft innovation is fundamental for driving the overall organizational innovativeness. This research has shown that franchise organizations that wish to promote the development and adoption of innovations could benefit from such an approach as well. It is therefore imperative that executives and manager pay sufficient attention to the soft and hard side of innovation as building and nurturing an innovative organization requires both. Apart from

creating an organizational structure and culture in support of innovation, franchise organizations should consider using a coupled innovation process instead of an outside in process. This can be best achieved by building relationships with external sources such as by reaching out to start-ups or by participating in innovation networks. In order to work with complementing start-ups, it's essential for franchise organizations to develop a strong relational capacity.

Executive and managers who involve franchisees to a great extent in the innovation process should consider reducing their involvement. Since the findings point out that reducing franchisee involvement can considerably speed up the development and adoption of innovations. There are however a couple of prerequisites that should be taken into consideration. First of all, franchise organizations aiming to reduce franchisee involvement should limit the stake of franchisees, and by this the power that franchisees can exercise in the innovation process. Secondly, franchise organizations are advised to keep or acquire a sufficient number of company owned stores for testing innovations as well as for building trust with franchisees. This research has further shown that trust is an important factor in convincing franchisees to adopt innovations. In order to increase trust with franchisees, executives and managers should consider appointing ex-franchisees in key executive positions. Third, franchise organizations should consider facilitating frantrepreneurship, as these enterprising franchisees can accelerate the development of incremental innovations, and as shown by this research, can convince franchisees of adopting innovations. Finally, the results showed that franchisors should consider informing franchisees about innovations through one-on-one meetings rather than collective meetings, since this reduces the likely hood that innovations are misunderstood and end up being rejected by franchisees.

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APPENDIXES

Appendix I: Sample interview outline

Background information:

1. Could you tell something about the company you work for?
2. Can you explain why DPE is listed at number 20 of Forbe's most innovative growth companies? **[Exemplar specific question]**
3. How would you describe the corporate culture?
4. Could you describe the franchise model that is being applied?
5. How would you describe the relationship with the franchisees?

Innovativeness:

6. How important is innovation for the business strategy?
    a. How is this expressed?
7. Can you mention examples of innovations that have been developed in recent years?
    b. Are there specific innovations that have improved the competitive position?
    c. Are there specific innovations that have improved the efficiency?
8. How is innovation promoted in the organization?
    d. Is this reflected in the business structure? If so, in what way?
    e. In what way is this culture created?

Co-creation with customers:

9. Where do innovative ideas originate?
10. In what way is it collaborated with franchisees for innovations?
11. In what way is it collaborated with customers for innovations?
12. In what way can customers influence innovations?

Open innovation:

13. In what way is it collaborated with third parties for innovations?
14. Does your company use open innovation networks for obtaining creative solutions?

Innovation adoption process:

15. How are innovations *selected*?
    a. How is the franchisee involved in the selection process?
    b. Is a formal process used?
16. How does the *decision* take place to adopt innovations?
    a. How is the franchisee involved in the selection process?
    b. Is a formal process used?
17. How does the *implementation* of innovations take place?
    a. How is the franchisee involved in the selection process?
    b. Is a formal process used?
18. How is it made sure that innovations are taken into use by franchisees?
19. Have there been occasions in which franchisees resisted to adopt an innovation?
    a. How did your organization handle this?

Dual distribution:

20. How is the ration between own retail outlets versus franchised outlets?
21. In terms of innovations, do your own retail outlets play a role?
    a. If so, in what way?

Frantrepreneur:

22. Are there franchisees who innovate locally?
23. Is this facilitated by corporate? If so, how?
24. Are such innovations applied in other geographic regions or stores?