Information Systems Frontiers 2:1, 99–114, 2000

The Impact of Intranet Technology on Power in Franchisee/ Franchisor Relationships

Michael H. Dickey
Louisiana State University, E. J. Ourso College of Business Administration, Information Systems and Decision Sciences, 3190 CEBA, Baton Rouge, LA 70803
E-mail: mdickey@lsu.edu

Blake Ives
Tulane University, A. B. Freeman School of Business, New Orleans, LA 70118-5669
E. J. Ourso College of Business Administration, Louisiana State University
E-mail: bives@acm.org

Abstract. **In this exploratory study we investigate the impact of an organization-wide intranet on the power relationships between franchisee and franchisor. This article reports on a study of an intranet implementation at PJ's, a franchise organization consisting of 25 coffee and tea cafes. Through use of interviews as well as a detailed case study of one franchisee, we examine how the relationship between franchisor and franchisee changes with the implementation of an intranet. Among the findings was that the intranet appeared to increase power of both franchisee and franchisor, though the franchisor continued to have relatively more power than the franchisee. The franchisor did not include franchisee to franchisee communications as an intranet feature and, interestingly, the franchisees did not seek to develop such a virtual community outside of the system. We speculate that the current satisfaction with the franchisor among franchisees might explain disinterest in such a community. We also found evidence that some franchisees who entered the franchise organization early in its evolution might react much differently to the implementation of the intranet than those who invested in the more established organization several years later.**

Key Words. **intranets, extranets, franchise organizations, power, organizational impact**

Introduction

The advent of flatter corporate organizational structures and a decrease in perceived job security resulting from downsizing and reengineered work processes, have led to the emergence of franchise ownership as an attractive career (Felstead, 1993). Potential franchisees—the buyers of franchise opportunities—seek the touted benefits of ''being your own boss,'' flexible lifestyle, and minimizing risk by purchasing a proven business system. Franchisors, the sellers, benefit by being able to expand their business quickly without investing additional capital.

Franchising is experiencing a boom, and as a business form is having an ever-increasing impact on the global economy (Bradach, 1998). ''Franchise businesses accounted for just over one-third of all retail sales in the United States in the early 1990s'' (Parsa, 1996). By the year 2000, it is estimated that 50% of all retail sales will be generated by franchise outlets (Bradach, 1998). Thus, franchise operations demand our attention in research.

Electronic commerce has attracted organizations in virtually all business sectors with its promise of business growth; franchise organizations are no exception. Web presence allows businesses to enhance relationships with trading partners through information technology such as intranets and extranets. An *intranet* uses the Web architecture (i.e., use of browser software) on private corporate networks (Kalakota and Whinston, 1997) or on public networks with password-protected Web sites. An *extranet* also uses the Web architecture on private or password protected public networks, but it may also include support for dial-up access, both for offsite internal personnel, such as field representatives, and for close trading partners. Trading partners may be granted limited access to certain information; for example, franchisees may be given access to a franchisor's ordering system so that orders may be placed with real time knowledge of inventory levels.

Intranets and extranets are attractive to franchisors because they are inexpensive. Franchisees may only need to invest in a computer (which many already own for other business needs) and pay a nominal monthly access charge to an Internet service provider. A franchisor may then use the system for (1) communication with franchisees that will enhance control of its distribution system by making standards easily and readily available, and (2) franchisee reporting which enhances monitoring capabilities. Franchisees can be expected to adopt the system for its advantages of ready access to better organized information (almost 24 hours a day, 7 days a week) and improvements in their own operations (such as automated ordering and sales reporting).

These systems are becoming increasingly popular. A number of companies specialize in constructing intranet systems for franchising systems.

As information technology (IT) becomes more accessible to franchise organizations, it is reasonable to anticipate a change in the relationship between franchisor and franchisee. Specifically, how will information technology, particularly corporate intranets, modify power relationships between franchisors and franchisees?

The nature of the franchise relationship dictates that the power possessed by the franchisor will exceed that of the franchisee. We believe that IT will increase the quality, quantity, and frequency of information exchange—or in other words, information power (Parsa, 1996)—for both the franchisor and the franchisee. However, we expected that information power for franchisees would increase to a greater degree than for the franchisor, thereby shifting relative power between the two toward more equal power.

To elaborate, we begin with an examination of franchising characteristics and the nature of conflict between franchise partners. We then describe power in franchising relationships and focus on how information technology can affect power between franchise partners. We then formally pose the research question and present findings from a case study of one franchise organization.

Franchising

How franchising works

A franchisor, or seller of a franchise, develops a concept for a business along with a system of operations that, if it is to be successfully marketed, must be seen as potentially profitable. Businesses may provide products or services. Perhaps the most familiar product-oriented franchises are petroleum retail outlets such as Texaco, and quick-service restaurants (QSRs) such as McDonald's. The top thirty franchisors in 1999 (Entrepreneur Magazine, 1999) also includes service sector franchise opportunities such as tax services (Jackson Hewitt Tax Service), physical fitness instruction (Jazzercise, Inc.), and cleaning services (Coverall Cleaning Concepts). Typically, franchisees purchase a right to operate at a given location. They are provided with a system of operations devised by the franchisor in exchange for an initial franchise fee as well as ongoing royalty payments based upon a percentage of sales (Wimmer and Garen, 1997). The standardized operating procedures provided to the franchisee potentially decrease the risk of opening a new business. In addition, the franchisee may share in economies of scale in purchasing power, marketing, and information technology.

Vendors supplying franchise outlets with standard materials (e.g., food, containers, equipment, cleaning supplies) will offer the franchisor volume discounts which are then passed on to the franchisee. In many instances, the franchisor controls the production process for the inventory; for example, TCBY, through manufacturing affiliates, sells its own frozen dessert line to its franchisees.

Marketing support, a key benefit to a franchisee, is often funded by a portion of the royalty payments or separate marketing fees. Franchisors provide varying levels of marketing support ranging from franchisor-sponsored national advertising campaigns to the provision of promotional materials from which franchisees can craft their own marketing program.

Information systems may also be provided or required. For instance, some franchisors require franchisees to purchase a particular accounting system, complete with a franchisor-provided chart of accounts. Standardization in systems introduces standardization in reporting, which is presumably advantageous to the franchisor over the long term. Molly Maid, a cleaning service franchisor, provides this type of support (Kennedy, 1998). Franchisors may also provide information technology to facilitate communication, ordering, and reporting, such as corporate intranets.

A mutual dependence relationship is thereby established, whereby the franchisee depends upon the managerial expertise (and sometimes product) of the franchisor, and the franchisor depends upon the franchisee to execute the franchise model so that expansion in sales can be quickly realized.

The nature of conflict between franchise partners

Franchisors and franchisees, by virtue of how profits are distributed, have different agendas. Franchisors are paid a percentage of sales, and therefore are primarily interested in growing sales. Franchisees, on the other hand, measure profitability in terms of the difference between sales and expenses, so their primary focus is on maximizing gross margin. According to Parsa (1996), ''this is the tension in the franchise system: franchisors prefer greater revenues (without regard to margin) while franchisees seek higher gross margins (with less regard to revenues)''.

In addition, franchisors, as the developers of business concepts, exercise control over franchisees so as to maintain quality standards, product consistency, and proper operational execution of the model (Palamountain, 1955). Franchisees relinquish this control in exchange for the expectation of greater profits.

Typically, franchisees have little input into the strategic decisions made by the franchisor. Rather, strategic decisions are made with the interests of the franchisor in mind, and may not be in the best interest (in terms of profitability) of the franchisee (Parsa, 1996). Thus, the stage is set for partner conflict.

Power in Relationships

Power and bargaining posture

The potential for partner conflict leads both the franchisor and franchisee to develop a bargaining posture as an initial step towards conflict resolution. The character of the bargaining posture for a given party depends on its power capability, which is a function of its level of dependence on the other party (Lawler, 1992).

Power capability may result from two dimensions of power: ''total power'' in the relationship and ''relative power'' of the parties in that relationship (Lawler, 1992). ''Given equal [relative] power, shifts upward or downward in total power involve proportional changes in the degree of mutual dependence . . . Shifts in relative power entail either a redistribution of existing power in the relationship or an unequal distribution of changes in total power'' (Lawler, 1992, p. 22).

Bargaining postures may be characterized as either conciliatory or hostile (Lawler, 1992). Conciliatory bargaining tactics indicate a willingness to communicate or collaborate in resolving the conflict; hostile tactics by contrast are overtly negative, representing a desire to control through the use of intimidation and competition.

The choice of tactics is dependent upon both ''total power'' (or ''mutuality of power'' (Lawler, 1992)) and ''relative power'' in a bargaining relationship. The greater the total power (given equal relative power) in a relationship, the more conciliatory tactics will be used, and the less hostile tactics will be used. Unequal relative power will decrease conciliatory tactics and increase hostile ones (Lawler, 1992).

Types of power

In a franchise relationship, ''[a] franchisor has considerable [relative] power over its franchisees. The manner in which that power is wielded affects both franchisee satisfaction and financial results'' (Parsa, 1996). Power comes in two varieties: economic and noneconomic (Parsa, 1996).

Economic power directly affects a franchisee's financial status. There are three types of economic power: coercive, legitimate, and reward. Franchisors exercise coercive power when a franchisee's noncompliance with franchisor directives results in a sanction of some sort, such as loss of territory or store closure. Legitimate power arises from the contractual agreement between the franchisor and the franchisee. Reward power is related to the franchisor's ability to offer a reward (something of value) to franchisees for following franchisor guidelines.

Noneconomic power is derived from the possession of information and other resources, and may be categorized as expert, referent, or information (Parsa, 1996). Expert power relies on the existence of expertise relevant to the franchise system. Referent power depends upon the perception of the franchisee of the franchisor; for example, a franchisor's high name recognition or financial resources may accrue referent power for the franchisor. Information power is based upon the quality, quantity, and frequency of information exchange between a franchisor and its franchisees (Parsa, 1996).

Information Technology as a Power Modifier

How will information technology modify power in the franchisor/franchisee relationship? In short, we believe a change in relative power toward more equal power will come through an increase in information power.

Recall that (1) franchisors exercise considerable power over franchisees, and (2) information power refers to the quality, quantity, and frequency of information exchange between a franchisor and its franchisees (Parsa, 1996). Even in the newest of franchise organizations, a minimum amount of reporting *from* the franchisee *to* the franchisor is required contractually, typically in the form of financial and marketing information. This information is critical to the franchisor's income stream. That is, franchisee revenue affects the size of the royalty payments, so the franchisor is likely to carefully record and monitor this information. Franchisors also send information to franchisees, but the extent of information technology support for communications will affect the degree to which the information is used.

Without technology, for example, a franchisor may distribute new product information, operational changes, and promotional materials via weekly mailings, but the demands of day-to-day operations may keep the franchisee from reading and/or acting on the information the day it arrives in the mail–so the information packet is filed and may never be opened. In this scenario, although the franchisor sends information to the franchisee, it is as if the information were never sent. Even if it is opened, if some of the information is needed in the future, only the most disciplined of franchisees may remember and be able to find it. Because the information received by the franchisor is more accessible and relevant than the information received by the franchisee, the franchisor has greater information power than the franchisee.

When technology is used to support franchisees, communication is placed in an electronic repository of some sort for franchisees to access online. Franchisees can access the electronic information conveniently and can locate reference material more easily when it is not stuffed into big metal filing cabinets or piled up on the office floor. Information published online is likely to be more current, since time for publication and distribution is eliminated. Thus, the information power of the franchisee is increased. The franchisee, in this case, has the same reporting requirements as in the first example, although these are likely to be more automated as well. So formally stated:

H1: Franchising systems employing information technology that improves information exchange will have higher information power than franchising systems that do not.

The information power of the franchisor may increase some if franchisees report more efficiently, but the power of the franchisee relative to the franchisor is likely to increase to a larger extent since franchisee information usage will increase to a greater degree. Thus, an increase in information power for the franchisee may result in a change in relative power toward equal power. The related hypothesis is:

H2a: Within a franchise organization, the greater the extent of franchisee usage of an IT system that supports information exchange, the greater the franchisee's information power relative to the franchisor's information power will be.

If a shift toward more equal power between the franchisor and franchisee occurs, a related hypothesis based on Lawler's work (1992) is:

H2b: The greater the franchisee's relative power in relation to the franchisor's power, the greater the use of conciliatory tactics for conflict resolution will be.

If H1 and H2 are found to be true, then it follows from Parsa's work (1996) that:

H3: The greater the total power in a franchisor-franchisee relationship, the greater franchisee satisfaction will be.

The Study

Methodology

To explore these issues, we performed a case study. A single franchise organization was studied, and the unit of analysis was the franchisor-franchisee dyad. The franchise organization, PJ's USA, Inc. (''PJ's''), chosen for study is a retailer of coffee, tea, and related products. It was selected for convenience. Dickey, one of the authors, has owned a PJ's franchise since 1992, and for a number of years prior to that was retained on a consulting basis for software support. Thus, detailed knowledge of the organization has been acquired over a period in excess of twelve years. The franchise organization recently implemented an intranet for franchisee support.

We conducted thirteen interviews over a six-week period in March and April of 1999. Interviews were conducted by phone and lasted from 30 minutes to an hour. We created a detailed transcript of each interview for subsequent analysis.

Six interviewees were employees of the franchisor, including senior management, franchise field consultants, and company-owned store managers. A categorization of franchisor personnel is shown in Table 1.

The remaining seven interviewees were franchisees (37% of all franchisees). One had been involved as a test site for the intranet since August 1998. The other franchisees were all new users of the intranet at the time of the interviews. The selection of franchisees as interviewees was made on the basis of both convenience and characteristics. Most stores are located in Louisiana; others are located throughout the Southeastern United States. Five interviewees owned cafes in Louisiana and two were outside Louisiana in different states. The longevity of franchisees in the system varied from six years to less than a year.

Background Information

PJ's history

The first PJ's Coffee and Tea was opened in uptown New Orleans by founder Phyllis Jordan (PJ) in 1978. Originally conceived as a retail specialty coffee and tea store, the concept soon expanded to include cafe seating, and evolved into a friendly neighborhood cafe. Demand for PJ's high-quality coffee led Jordan in 1980 to purchase a coffee roaster and to lease a warehouse to accommodate the roasting operations and store limited quantities of green coffee.

Jordan opened a second cafe in 1984, also in uptown New Orleans, a third cafe in 1987 on a New Orleans college campus, and a fourth, also in New Orleans, in 1991. PJ's began franchising in 1987. By

Table 1. *Franchisor employees interviewed*

Position	Number interviewed	Comments
Chief Executive Officer	1 of 1	
Vice President of Operations	1 of 1	
Franchise Field Consultants	2 of 2	In this organization, a franchise field consultant is the liaison between assigned franchisees and the franchisor. They are responsible for ensuring standardization and compliance with franchisor directives, and to assist franchisees with operational implementations however they can. The franchise field consultants can serve as an advocate for the franchisee in case of conflict and are often a conduit for new ideas gained from front line experience.
Company-Owned Store Managers	2 of 6	In addition to supporting franchise operations, the franchisor operates several company-owned stores. We interviewed a couple of the managers of these stores.

August of 1999, there were over twenty-five cafes in operation with others under construction.

PJ's management

When PJ's began franchising, Jordan remained as Chief Executive Officer and President. During this embryonic stage of PJ's as franchisor, as is typical of young franchising systems, PJ's management of franchisee relationships was relatively loose and permissive. The PJ's system of operations was not always clearly defined, and often franchisees made decisions about operations independently, without approval from the franchisor and without regard to the system-wide impact of their decisions. In essence, while operational systems were being tested and refined, franchisees were permitted to adopt practices that fit their own markets and reflected owner temperaments. One franchisee said:

> Once you got your franchise, you could put your own personality into the store—my store was different; all the stores were different. They reflected the personality of owners and location.

In this era, franchisees were largely autonomous. The franchisor, in the meantime, focused on very controlled growth of the number of franchise units. Limited enforcement of franchisee compliance with franchisor directives led to a number of problems. Among these was lack of standardization among franchise units. For instance, customers who visited more than one cafe were often confused and frustrated by menu offerings that were inconsistent both in content and quality. One cafe might decide to offer five iced coffee flavors per day, against the franchisor's directive of offering one flavor per day. Nearby franchisees were then put in the uncomfortable position of either adapting to satisfy the confused customer while risking sanction from the franchisor, or complying with the franchisor directive while dissatisfying a customer.

Lack of standardization also led to franchisee dissatisfaction. Franchisees who complied with franchisor directives, which were sometimes accompanied by increased costs, did not realize all the intended benefits of the directives, because the changes were not made system wide. When franchisees learned that all franchisees were not required to implement changes, they became dissatisfied and often angry. For example, when the franchisor changed a recipe for hot drip coffee, cost of goods sold increased significantly. Franchisees with one type of brewing equipment were forced to comply, while others with a different type of brewing equipment were not required to adopt the new recipe. As more directives were issued, franchisees became more likely to discuss implementation plans with other franchisees prior to their own buy-in, or simply to ignore the directive altogether.

At this time, Jordan recognized that she needed to overcome these challenges if PJ's were to grow. She sought outside expertise to guide the organization on a number of fronts, with franchising being one of several areas to be addressed. Bryan O'Rourke was retained on a consulting basis in 1996, and in 1998 took over as Chief Executive Officer. Jordan expected that his significant prior experience with franchise organizations would benefit PJ's. Throughout his career, O'Rourke had assisted franchises in a variety of capacities, including financial consulting, divestment and acquisition, and development of start-up franchisors. Jordan switched her focus to marketing and concept development, while leaving the job of running the business to O'Rourke.

This brief history establishes two distinct eras in PJ's management. Some franchisees in interviews distinguished ''pre-Bryan'' days from the present. When asked about his working relationship with PJ's, one franchisee described two separate experiences. He punctuated his early experience with: ''That's a short commentary on the first period throughout the period until Bryan O'Rourke came on board.'' Another says: ''Once he [O'Rourke] got in, the whole picture changed.''

The PJ's environment, both past and present, has affected and continues to affect existing franchisor-franchisee relationships. In addition, PJ's evolution in management has affected the franchisee selection process. Today, as we will show in the following section, PJ's tries to attract a different type of investor.

Franchisor/franchisee Relationships

Expectations: two classes of owners

The reasons for investing in a PJ's franchise give some insight into franchisee expectations of the franchisor and set the tone for the ensuing relationship. Some franchisees, particularly those involved with the organization the longest, invested originally because they wanted to be self-employed, ''to break out of the work-for-someone-else world.'' Others wanted a more flexible lifestyle—''to be freer with my work time,'' or to be able to adopt a work schedule that could adapt to family demands. Most franchisees were either regular customers of other cafes, or had been employed by company-owned stores, and indicated that the high quality of PJ's products and services drove their decision to invest. One ''did not want to be responsible for problem solving''; another was reluctant to go ''totally entrepreneur'' and found peace of mind in ''having a back-up organization.'' Only one, the newest franchisee interviewed, cited ''making money'' as the reason for investing.

The perception of ''being your own boss'' inaccurately reflects the reality of the franchisee relationship. While franchisees own or control the physical means of production (e.g., equipment, furniture, product, labor), the franchisor owns the mental means of production (Felstead, 1993). In other words, the franchisor controls policy and procedure.

Uniformity in the franchise system is a desirable objective, both for the franchisee and the franchisor, but blurry ownership boundaries put the franchisor in a difficult position. Though the franchisor is legally entitled to mandate ''the mental means of production,'' franchisees' ownership interest makes this a difficult task. So rather than issue directives outright, franchisors tend to ''sell'' implementation strategies (Bradach, 1998).

This is true at PJ's as well. The CEO says, ''We try to cajole—convince them that we need to do it.'' One franchise field consultant told us, ''I help franchisees learn or see why you should comply by using sales data, management issues, and different techniques so franchisees can understand where the company's coming from.''

According to O'Rourke, as a franchise system matures and becomes successful, ''ultimately you're attracting a different franchisee, one that has capital, sees returns, and is investing for that purpose.'' Compliance, in his view, becomes easier when the franchise system works and franchises are profitable. He sees the early franchisees, being more entrepreneurial, as having other concerns:

> The fact that they [franchisees] want to be able to offer a certain pastry or a certain color coffee pot, are much more important to some of them than the profitability of the cafe ... They're in it for a different reason than profit or efficiency ... those are more important [to the early franchisee] than to a person opening store 100—who may already be a millionaire.

Thus, there appear to be at least two distinct classes of franchise owners: the early, ''entrepreneurial'' franchisees who look at this as a ''life style'' decision and the newer, ''investor'' franchisees who are focused on profit. In O'Rourke's opinion, a good franchisor-franchisee relationship will exist if the two parties share common business objectives. If the franchise concept is sound, the franchisor may find it easier to meet the expectations of the latter group, which more closely mirror those of the franchisor. Early PJ's franchisees are ''people who want to do their own thing, or ... who can't figure it out on their own, or who mitigate risk—you're never going to meet their expectations.'' O'Rourke explained:

> One franchisee doesn't even look at her P & L—how are you going to support that kind of franchisee—they don't care—what is important to them has little to do with efficiency.

A franchise field consultant concurred with O'Rourke:

> Each franchise is very different. What they respond to is different. We'd like to think that they all respond to financial results. But that's like last on many of their lists.

We do not suggest that all early franchisees are contrarian, nonconforming operators. As franchise organizations mature, some franchisees do evolve from ''entrepreneur'' to ''investor,'' more closely aligning their goals with those of the franchisor. One example was the franchisee who received the Franchise of the Year Award for 1999. This PJ's franchisee who had operated a café for more than six years had initially been attracted by the flexibility in work schedule but always saw the store as essential to her family's financial well being.

Franchisor/franchisee relationships at the time of the intranet introduction

In the mid-1990s, some of the early franchisees were grappling with the fact that PJ's was maturing. In the earlier years, the relationship between PJ's and its franchisees was friendly. While admittedly there were operational problems, the franchisees had felt comfortable with the organization's laissez-faire way of conducting business. At the time of the intranet introduction in 1999, for a couple of the early franchisees, the relationship was increasingly characterized by conflict:

> The nature of the relationship has changed over the years. When we first bought the franchise, . . . we were friends with the people at headquarters . . . it was not constrained by a strictly bottom line mentality . . . Since Bryan came on board . . . all those things [changes] are supposedly aiming to [make PJ's] more professional, [but] I feel almost in an adversarial relationship with the company . . .
>
> Prior to the new management I had an excellent relationship with PJ's. Everyone was helpful . . . I've gone from an excellent relationship to not speaking with anyone at PJ's.

For the most part, though, the franchisees we interviewed enjoyed a positive relationship with the franchisor. Even though challenges in communications, ordering, implementation speed, and the like often arose, there was a general feeling that personnel was able to address problems and that PJ's would work toward solutions. This feeling was expressed by franchisees with varying lengths of store ownership:

> It's a good relationship . . . Sure there are disagreements, but that doesn't have to do with our relationship. I call—they answer me. I have a problem with the coffee order—they fix it.
>
> I feel we have a positive relationship with PJ's. [There are] problems with communications, not being able to get things fast enough, not being able to get accurate information fast enough . . . They spend a lot more time with stores that have difficulties . . . We don't spend a lot of time talking to them.

The PJ's Intranet: Expectations

We now turn to the PJ's intranet, beginning with a brief background discussion of its implementation at PJ's. We then try to describe, based on the interviews, both the franchisees' and the franchisor's expectations about the intranet.

Implementation

The impetus for PJ's implementation of an intranet came from a graduate electronic commerce class group project. Dickey along with fellow classmates who were not affiliated with PJ's constructed a strategic plan for an intranet implementation. Dickey later presented the plan to PJ's USA who then decided to invest in an intranet. The goals delineated in the strategic plan were three-fold:

- To facilitate communications between PJ's USA and its franchisees.
- To improve the compilation of weekly sales data from the franchisees.
- To explore the possibility of Electronic Data Interchange for order fulfillment.

Though PJ's considered all three goals as future objectives, the initial intranet system first tested in August 1998, addressed only the first, that of improving communications between the franchisor and franchisee. Both franchise field consultants and three franchisees were chosen as test users. The system was made available to all franchisees in February 1999. Fax and mail communications from the franchisor to franchisees were discontinued in April 1999. We performed our interviews in March and early April, when physical implementation was largely complete but still fresh in the interviewees' minds. Nevertheless, patterns of use of the intranet were still evolving.

The franchisees' expectations

From Dickey's point of view as a franchisee, introducing improved information technology in the form of an intranet was critical to resolving some frustrating operational concerns. At the time of the class project, the franchisor communicated with the franchisees through a weekly mailing that compiled information from all functional departments. The mailing was intended to update operational procedures, transmit necessary information about coffee production and accounting procedures, and facilitate execution of marketing directives. Communication that demanded distribution before the next weekly mailing was distributed via fax or separate letter. A typical weekly mailing consisted of four to six short memos, but often included reference manual updates of thirty pages or more.

The communication system produced unorganized, and sometimes inaccurate, information that was difficult for the franchisee to later locate or even recall. Other problems included duplicate information (information sent on a priority basis was resent in the weekly mailing), late distribution, and significant administrative cost for the franchisor. Other franchisees agreed with this assessment:

> My information packet was included in my coffee delivery which ships out on Tuesday for Wednesday delivery. If a directive comes out on Wednesday morning, I won't get it until a week later.

> [There are] problems with communications, not being able to get things fast enough, accurate information fast enough.

Although Dickey, as a franchisee, intended that an information technology solution would produce operational efficiency, that was not the only reason for her interest. Frustrating operational difficulties resulted in franchisee dissatisfaction both with the performance of the franchise and the franchisor. Because of frequent disagreements with, or her disappointment in, the franchisor's decisions, she sought greater strategic input into the franchise system through technology. The franchisee perceived that this input would translate into more control over her business.

Specifically, the franchisee believed that:

- Discussion forums among franchisees would give franchisees a greater collective voice, one that was more organized and more prompt.
- Franchisor-to-franchisee and franchisee-to-franchisor communication would be improved, making it easy for the franchisee to offer suggestions, solicited or not.
- Communication would be documented, thus either forcing the franchisor to address franchisee issues or recording the franchisor's failure to respond.
- Franchisee-to-franchisee communication would be facilitated as well.

At the time of the intranet implementation in April 1999, franchisees who were new users of the intranet described their expectations about improved communications:

> I think the intranet will help the communications gap—it'll be so much better—just because of e-mail.

> I'm hoping it will equate to faster dissemination of information.

> It will get memos to you faster ... With the intranet, as best I understand, as soon as they put stuff out there, we'll get it.

> PJ's will answer e-mail faster than I can talk to them on the phone.

Most of the franchisees also expected the intranet to provide franchisee-to-franchisee communications, as they described:

> ... communications between stores will be better. It [the intranet] should be available as a communications tool franchise-to-franchise.

> I would like to see communication with all of the franchises—a chat room at PJ's web site that we could all ask questions and share information with each other.

> I would like to see it facilitate communications between not just corporate and myself, but open up communications between me and other franchisees.

The franchisees' expectations for communication are shown graphically in Fig. 1.

The franchisor's expectations

CEO O'Rourke believed that an intranet would provide ''a method and a system, an infrastructure to support growth in an efficient way and to maintain and improve the quality and timeliness of communication.'' Other staff at corporate headquarters shared this belief. Franchise field consultants and company-owned store managers alike expected that the intranet would make the company more efficient and better able to support growth:

> [The intranet will] make PJ's more effective, more efficient, and more productive ... It allows us to streamline the information provided in a much more timely fashion.

> More or less, to be able to have franchisees and PJ's communicate solutions and any needed information in a timely manner for both parties.

The intranet was generally expected to help communicate information that facilitated uniformity across the franchise system. Uniformity is not a goal of the technology, per se, but rather a strategic

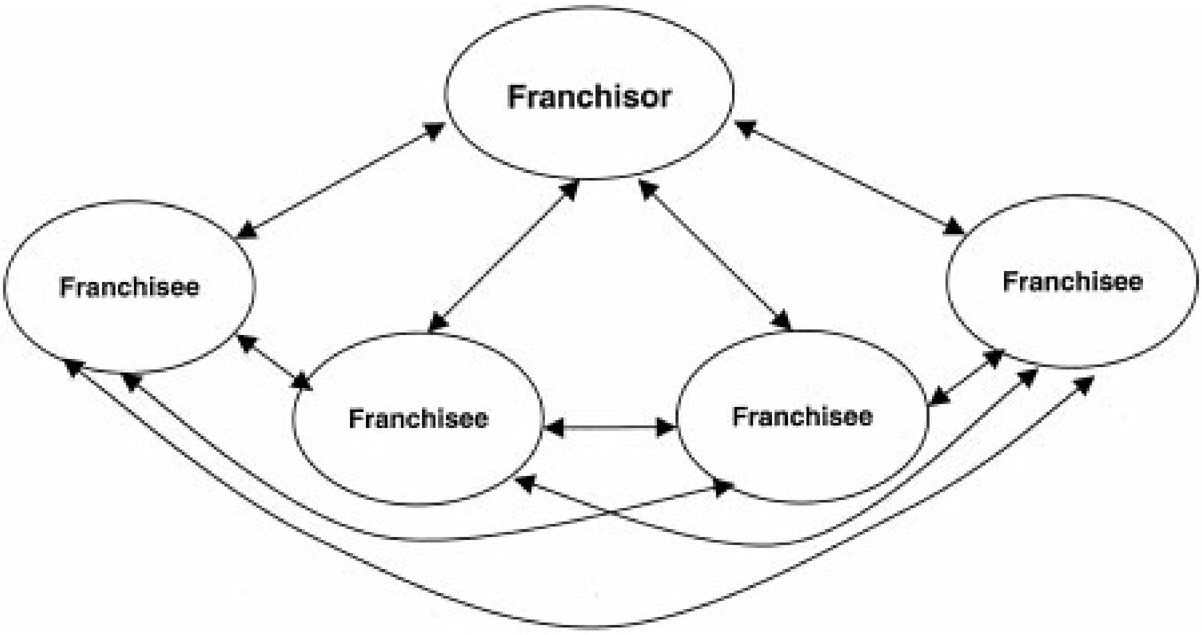

Fig. 1. *Franchisees' expectations of intranet communication.*

management philosophy that pervades the whole company. For example, if PJ's decides to implement a new product, communicating the importance of product uniformity and a simultaneous roll out date would be a conscious strategic choice. The intranet would only improve communication efficiency, making it easier for franchisees to implement a consistent product.

Several of the corporate staff expected that the nature of each franchisor-franchisee relationship held before the introduction of the technology would dictate how that relationship would evolve. The changes in relationship would be moderated by the franchisee's computer literacy, his or her need for human interaction, and the maturity of the franchise system at the time he or she purchased the franchise.

Some franchisor personnel interviewed were afraid that low levels of computer literacy, along with the need for human contact, might hurt a franchisee's relationship with the franchisor. One franchise field consultant put it this way:

> I think it has the ability to [hurt the relationship], but that depends on the person in the franchise field consultant role. If they use the time that they save with the intranet to foster the relationship, it won't affect the relationship in an adverse way ... Because you lose the human contact with [the intranet]—I just think if you're not conscious that you need that on occasion—. . . unless both parties understand the intranet as a system of communication, then it defeats its purpose.

The level of literacy may become a factor when franchisees decide whether to communicate by intranet, voice, or face-to-face meeting. According to one franchise field consultant, franchisees who understand that circumstances determine which media are appropriate will ask for ''a human moment'' when they need one. Others who do not have that subtle understanding will use the intranet until they get a phone call, and then revert exclusively to voice communication until the franchise field consultant consciously reinstates the intranet as the mode of communication.

O'Rourke, however, did not see relationships improving or declining as a result of the intranet. As stated earlier, franchisor-franchisee relationships are best when the two parties ''share common business objectives,'' with profitability being the primary goal.

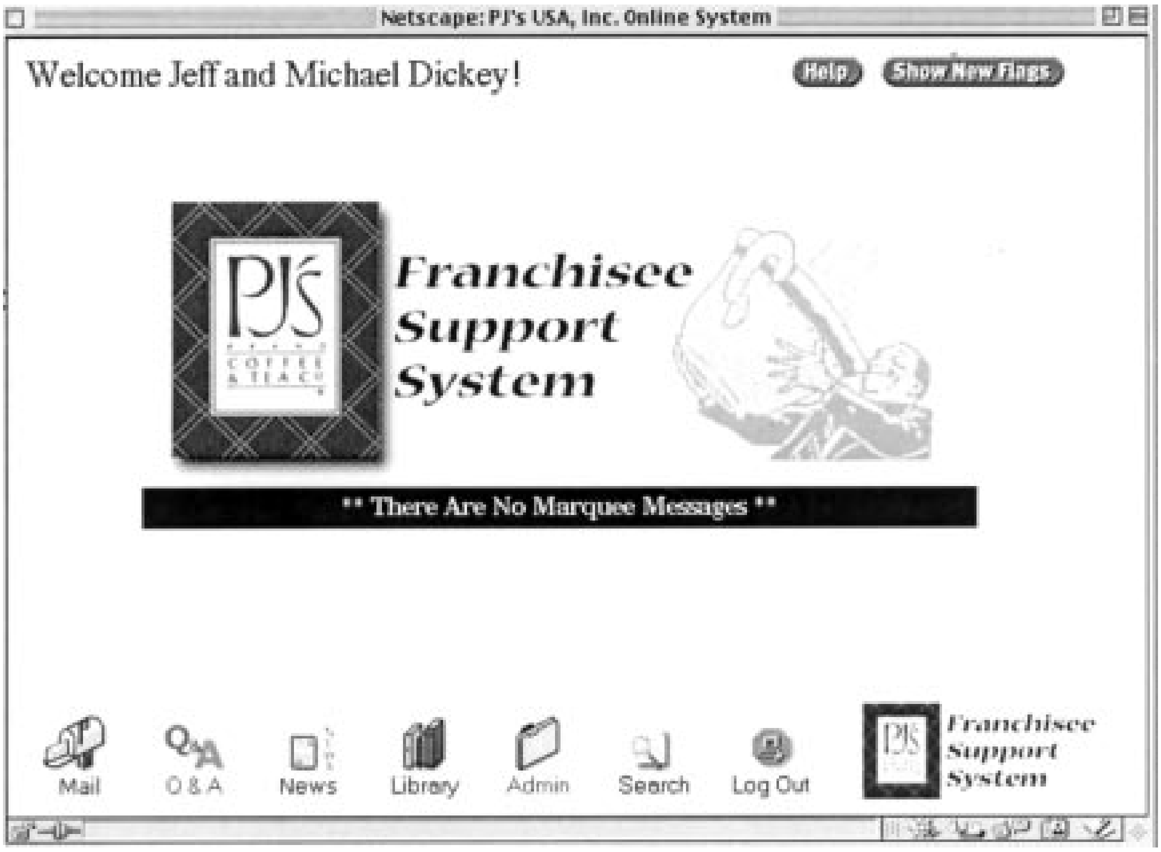

Fig. 2. *PJ's intranet main menu.*

For the early franchisees, he foresees no change in the relationship. Newer franchisees will see the intranet ''for what it is—a better way of doing business.''

Intranet Outcomes

In this section we explore the results of the intranet implementation. For the three franchisees involved as test sites, at the time of this writing, the intranet has been in place for one year. The rest of the franchisees interviewed have had access to the system for five months.

For ease of exposition, Fig. 2 illustrates the main menu of the PJ's intranet. The figure shows the features of the system. All features were available in April 1999, except for the Search feature. The system was designed and is maintained by IFX International, a company that specializes in Web-based applications for franchise organizations. PJ's organizes and maintains all content.

We will look first and in some depth at Dickey's experience as a test user. We compare her expectations for the system with her perceptions of its actual implementation. We then describe some of the other franchisees' experiences.

An in-depth look from one franchisee's perspective

Discussion forums. Discussion forums, called Q&A's (see Fig. 1), do exist on the PJ's intranet. They can only be initiated by the franchisor, and appear to be used to accomplish very specific objectives. Franchisees and company store managers are notified via e-mail of the existence of new forums. On average, a new forum has been initiated about once per month. The number of new forums initiated has decreased in recent months, but several of the old forums have remained active for longer periods. At the time of this writing, there are six available discussion forums.

Some forums have been very focused. For example, one of the early forums discussed the PJ's employee uniform (golf shirts versus t-shirts). The discussion was posted, ran for about a week, and was discontinued, presumably when PJ's USA gleaned whatever information they sought by posting the forum. Others have been question-and-answer forums directed at new product implementations, such as in-store baking. This forum began when in-store baking was in place only at test locations. The intention was to collect commonly asked questions from the franchisees and answers from the franchisor, in order to compile an information resource to be used when the product implementation was available for all franchisees. This way the franchisor could answer common questions once, instead of communicating via e-mail to each franchisee.

The franchisor does appear to take franchisee opinions into account. The opportunity exists for a strong collective voice from the franchisees, but participation so far has been relatively light, not so much in quantity of comments, but in the number of individual participants. The same four or five franchisees participate in the ''conversation.'' Company managers have participated in the forums as well.

One franchisee was concerned about the inability of franchisees to initiate discussion forums on topics that she felt were important. It is likely that, if a franchisee requested the initiation of a discussion forum on a particular topic, the franchisor would do so. The franchisor maintains control over the discussions, presumably to control the size of the intranet, but also to ensure that all forums are productive. In other words, the franchisor avoids unproductive forums, such as discussions that would likely degenerate into nothing more than complaint sessions, while encouraging those likely to lead to solutions.

Franchisor/franchisee communications. Both franchisor-to-franchisee and franchisee-to-franchisor communications have greatly improved. Franchisees may e-mail either of the franchise field consultants, the accounts receivable clerk, the coffee warehouse manager, and the marketing manager through the intranet. When the intranet was initially made available to all franchisees, other corporate addresses were available. Some franchisees then adopted the ''shotgun'' approach to problem solving, which resulted in several people at the corporate office researching a single question. Because this wasted corporate resources, the franchisor then restricted e-mail access to corporate personnel.

From Dickey's perspective, restricting e-mail access on the intranet has not actually restricted access. Though not prone to using the ''shotgun approach,'' there are times when the franchisee needs to consult with the CEO or the CFO. All PJ's personnel have e-mail addresses outside of the intranet, so those can be used instead, and are particularly useful if the intranet is down for maintenance.

With the introduction of e-mail, the franchisor has made a conscious decision to answer e-mail ahead of voice mail. It is extremely rare for e-mail not to be answered within a 24 hour period. Most e-mail is answered within a couple of hours. Franchise field consultants have laptop computers so that even if they are out opening a new store or conducting field audits, they are accessible. This is a tremendous improvement over pre-intranet days.

The intranet also includes an extensive library of operations manuals, training materials, employee handbooks, and artwork. The major challenge with the library has been to organize the materials. Dickey had to learn PJ's ''filing system'' before being able to find information. Many of her e-mails to the corporate office began, ''Where can I find ...?'' PJ's has reorganized the library materials over time, and at PJ's request, IFX, the intranet developer, has added a search function for the intranet.

Despite initial organizational problems, the library is nevertheless useful to the franchisee. Voluminous physical manuals were discarded, freeing up office space. In addition, the filing of manual updates is no longer necessary. Most important, the franchisee knows that the intranet library has the most current and accurate version of the information.

There is also a News section in the intranet. Memos are posted here as well as product implementation packets, available to be read at the franchisee's leisure. Distribution via the News section is more timely. For example, the most recent holiday plan was issued by the Operations Department in August. Previous holiday plans were generally distributed in October. An early distribution helps the franchisee to execute the plan efficiently, and allows time to respond to the franchisor.

Generally, materials in the library and the News section are in PDF format. But as PJ's personnel gain expertise, this too is evolving. The holiday plan is in HTML format, complete with relevant hyperlinks. Use of Web pages instead of PDF files allows multiple media to be incorporated, and decreases access time by eliminating time-consuming download procedures.

Both the News and the library sections have been updated almost on a daily basis by the franchisor since the April implementation.

The intranet, through e-mail, news, and library materials has greatly improved the frequency and quality of information exchange from the franchisor to the franchisee; communications upward from the franchisee to the franchisor has also improved. In Dickey's case, communication via the intranet occurs on an almost daily basis. The franchisee perceives that issues are recognized and that there is therefore greater strategic input.

Intranet as documenter. Before the PJ's intranet, the franchisee typically would phone in issues and concerns. There was no formal means of communicating feedback about directives, with the possible exception of submitting an approval application for a variance. It was not always possible for the field consultants to respond to voice mail immediately, and even if they did, the field consultant and the franchisee would invariably play telephone tag. The franchisee would sometimes have to make a decision before making contact with the field consultant, resulting in possible nonuniformity in the franchise system. Writing a letter was time-consuming as well, requiring a trip to the post office or submission of a fax. Written communication was not used as often as telephone.

The intranet facilitates feedback to the franchisor in two ways. First, e-mail provides an easy, convenient way to write to the franchisor. Second, it gives the franchisee an opportunity to really think out the issues while typing them and submit feedback in a professional, nonprovocative manner, which is beneficial to the relationship.

In Dickey's experience, if she objects to a system-wide directive or finds it confusing, the franchisor provides a detailed explanation of the decision-making process. The explanations, for the most part, have demonstrated painstaking care on the part of the franchisor, which has increased the franchisee's confidence in the franchisor. Compliance has increased, ''since we feel that they [the franchisor] know what they are doing.'' If the franchisee is still not satisfied after the explanation, the franchisor has either approved an exception or worked closely with the franchisee to find an acceptable solution. In one case, the franchisee believed a shortage of freezer space for baking supplies could be remedied by an increase in the number of delivery days per week. The franchisor-approved supplier could not accommodate

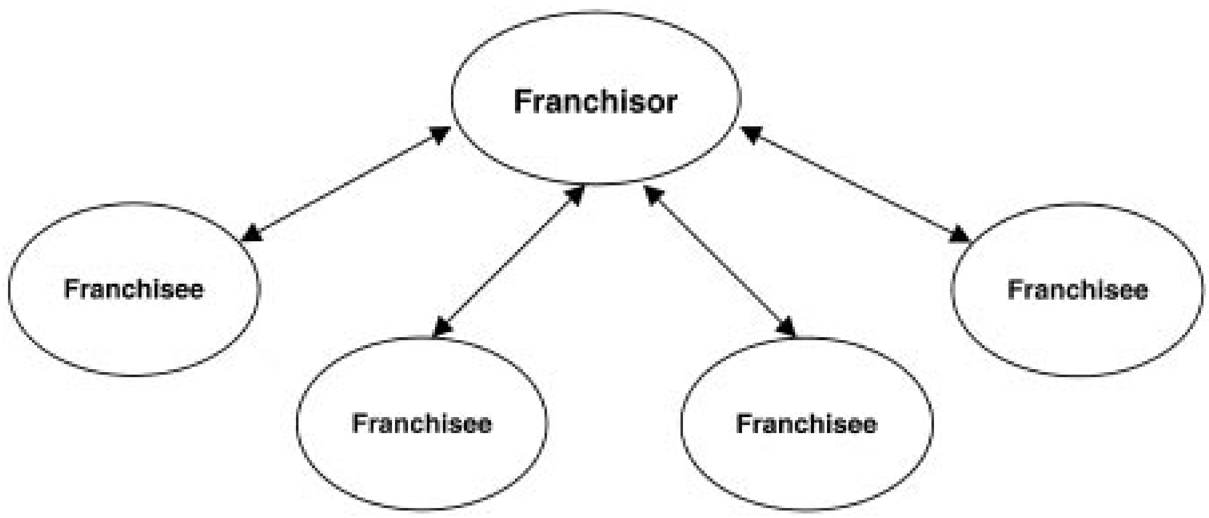

Fig. 3. Franchisor's design of intranet communications.

the franchisee, so the franchisor approved an alternative supplier. The franchisee has been more likely to work within the system to effect change than before the IT implementation.

Franchisee-to-franchisee communication. Franchisee-to-franchisee communication has not been permitted within the intranet, with the exception of the franchisor-initiated discussion forums. This communication pattern is illustrated in Fig. 3. Some franchisees have exchanged e-mail addresses, but e-mail outside of the intranet system has been very limited, except in special circumstances. Two franchisees have been using e-mail to negotiate a transfer of ownership from one to the other. There does continue to be some telephone communication between franchisees, but usually the franchisee initiating the call is dissatisfied about something. One franchisee says, ''since the franchisor is more responsive, we feel less need to speak with other franchisees.''

Other outcomes. For Dickey's franchise, revenues are up, on average, 25% over prior year's sales for every month from January through September 1999. The franchisee perceives that the franchisor is more accessible, and in fact, is considering purchasing another unit. In addition, the franchisor's satisfaction with the franchisee has improved. PJ's chose the franchisee to be one of three franchise owners to serve on the Franchise Advisory Council.

Changes in power. The power balance between the franchisor and franchisee has changed in several ways. First, information power which is determined by the quality, quantity, and frequency of information exchange has, as anticipated, increased for both the franchisor and the franchisee. The franchisee receives higher quality, more timely, more consistent information from the franchisor through the intranet. Likewise, the franchisor receives information from the franchisee more frequently in the form of e-mail and discussion forums. Since the information power is greater for both parties, total power is therefore also greater.

Second, the quality of information appears to have increased the expert power of the franchisor. Confidence in the information makes the franchisee more dependent on it, thereby increasing the power of the franchisor. This increase in expert power is also believed to have resulted in greater compliance of the franchisee.

Third, the franchisee perceives that she has greater strategic input. To the extent that the franchisor begins to rely on such strategic input, the franchisor becomes dependent on the information. This dependency increases the expert power of the franchisee.

All in all, there has been an increase in total power within the franchisor/franchisee relationship, but the relative power of the franchisor may have been maintained. Certainly the franchisor still has greater power than the franchisee. Further, the increase in total power has been accompanied by improvements in both franchisee satisfaction and performance.

Competing explanations for various outcomes. In addition to the introduction of an intranet, there have been other changes in the franchise organization that may have contributed to the shifts in power. New, stronger franchisor management is in place, and may have impacted the expert power of the franchisor. New products such as in-store baked pastries and ices have been introduced that have certainly had an impact on sales. It may also be that as the franchise organization has matured, it is attracting a greater percentage of investment oriented franchisees whose objectives are more in line with those of the franchisor. However, information technology has facilitated the communication about and implementation of new operating systems and products and has helped sell those to the franchisees. We believe that the evolution of the franchise system could not have been as rapid without the intranet.

The other franchisees

Our discussion of outcomes thus far has focused on one franchisee. Information about the other franchisees is less complete but still helpful to the analysis. What has happened to the other franchisees? One of the owners interviewed has terminated her franchise agreement with PJ's and is operating as an independent. Two others have sold or are seeking to sell their units. For the most part, sales are growing for individual units at double-digit rates, with several posting sales in excess of 20% greater than prior year sales.

PJ's processes appear to have been classically reengineered. The franchisor has made changes to the system overall. Some franchisees have adapted and will continue to be successful. Others have not, and will either self-select out of the system or be forced to do so. For PJ's, old processes were reengineered (though PJ's management did not explicitly term it as such), new processes were introduced, and technology facilitated the change.

As far as the power relationship, we predict that the adaptive franchisees will enjoy a relationship with the franchisor in which total power will increase. Franchisor power will increase (greater information power, greater compliance, and greater expert power), franchisee power will increase (greater information power, greater expert power), and the franchisor's relative power will remain higher than franchisee power. The increase in total power will improve franchisee satisfaction and performance.

We predict that the non-adaptive group, if they remain in the system, will more than likely see a shift in power from the franchisee to the franchisor and a decrease in franchisee satisfaction and performance. The franchisor will use information to cajole or coerce compliance. The more coercive tactics are employed, the lower franchisee satisfaction will be.

For new investors, total power will begin at a higher level since the franchisor will have greater expert power. The shift in power will take place only for units that operated prior to the introduction of the change. Interestingly, the further systemization of PJ's may make it more attractive to investors who would control multiple units and rely on professional management in each unit for day to day management. In such a triad of power involving store manager, franchise owner, and franchisor, the franchise owner might share some of the franchisor's power advantages vis-a-vis the unit manager. Thus, the more sophisticated information systems could attract more sophisticated investors.

Conclusions

This exploratory research employing qualitative research strategies was designed to further our understanding of how corporate intranets can change the balance of power within a franchisee/franchisor relationship. As with most exploratory research, the investigation broadened our understanding of the phenomena even while failing to support all of our initial predictions. We did find some evidence, as we anticipated, that the corporate intranet could improve the total power in the franchisee/franchisor relationship and it did improve communication between franchisee and franchisor, thus providing some support for H1. We did not find evidence, however, that it would balance power within that relationship. Thus, H2a was not supported. H2b hypothesized about the use of tactics for conflict resolution, but was dependent on H2a being true. In spite of the lack of support for H2, we did find that the increase in total power may lead to greater franchisee satisfaction, thus supporting H3.

We also found that a maturation process within the franchise organization requires us to consider at least two kinds of franchisees in refining our work. The first are franchisees who enter when the franchise organization is young and do so more because of ''life style'' decisions. Later, as the franchise organization becomes more successful, proven, and profitable, it appears to attract a new class of franchisee who, like the emerging professional management of the franchisor, are more profit oriented. While formalized information systems such as an intranet can increase the power of franchisees there may be resistance to such systems by the early franchisees who view the systems as threats to their independence.

Another unmet expectation, both of the researchers and the franchisees, was that franchisees would be able, and would want, to communicate with each other via the intranet. At PJ's franchisee to franchisee communication is not encouraged by the franchisor. In cases in which the franchisor/franchisee relationship is adversarial, franchisees are prone to initiate communication with other franchisees to incite other franchisees to action, or perhaps just to elicit sympathy. PJ's management felt that allowing communication over the intranet would be counterproductive.

Interestingly franchisee-to-franchisee electronic communication appears not to have occurred to any great extent outside of the intranet even though e-mail addresses have been exchanged. The franchisee involved in the in-depth study also felt that communication via fax and telephone has decreased among the franchisees.

In future research we hope to explore the conditions under which a virtual community might develop. Intuitively, franchisees would seem to be likely to engage in behavior that would increase their power vis-a-vis the franchisor. Increased communication among franchisees, as the franchisor has recognized, might have the likely consequence of increased power for the franchisees. So why has this community not developed? We theorize that the greater franchisee satisfaction is, the less likely a virtual community is to form among franchisees. If the franchisee is satisfied with the franchisor, he/she would be less likely to seek out other franchisees to add to a collective voice. On the other hand, if a franchisee is dissatisfied, he/she might be quick to e-mail another franchisee with a message: ''Can you believe the franchisor did so-and-so? We need to get together to figure out a solution.''

In such a scenario the franchisee does not appear to trust or respect the franchisor's decisions and would therefore be interested in marshalling the collective forces of the franchisees. If the franchisee trusts the franchisor to make good, well thought out decisions, even if the franchisee does not agree, the franchisee may be less likely to seek solace from fellow franchisees. Likewise, if the franchisor is perceived to be competent, then the franchisor's expert power is higher. Thus a related hypothesis might be that the greater the franchisor's expert power, the less likely a virtual community is to form.

In future research we will develop more rigorous tests of this and related hypotheses related to the power magnitude and distribution within the franchisee and franchisor relationship.

Acknowledgments

The authors would like to thank PJ's USA, Inc., and its franchisees for their assistance in making this research possible. They would also like to thank Susan Bergman, Lisa Murphy, and the anonymous reviewers for helpful comments on earlier drafts of this paper.

References

Bradach JL. *Franchise Organizations*. Cambridge, MA: Harvard Business School Press, 1998.

Entrepreneur Magazine's 20th Annual Franchise 500, 1999. Available online: www.entrepreneurmag.com/franchise500/franchise_rank.htm, viewed June 12, 1999.

Felstead A. *The Corporate Paradox: Power and Control in the Business Franchise*. London: Routledge, 1993.

Kalakota R, Whinston AB. *Electronic Commerce: A Manager's Guide*. Reading, MA: Addison Wesley Longman, 1997.

Kennedy T. Information systems in franchising. In: *Franchising*. Justis RT, Judd RJ, eds. DAME Publications, Inc, 1998.

Lawler EJ. Power processes in bargaining, *Sociological Quarterly* 1992;33(1):16–34.

Palamountain JC, Jr. *The Politics of Distribution*. Cambridge, MA: Harvard University Press, 1955.

Parsa HG. Franchisor-franchisee relationships in quick-service-restaurant systems. *Cornell Hotel & Restaurant Administration Quarterly* 1996;37(3):42–50.

PJ's USA, Inc. *Operations Manual* 1998.

Wimmer BS, Garen JE. Moral hazard, asset specificity, implicit bonding, and compensation: The case of franchising. *Economic Inquiry* 1997;35(3):544–555.

Michael H. Dickey is a doctoral candidate in Information Systems and Decision Sciences at the E. J. Ourso College of Business Administration at Louisiana State University. Her research interests are in the areas of electronic commerce, organizational impact of information systems, and franchise organizations. She has co-authored a book chapter on electronic commerce markets and users.

Blake Ives is the Ourso Family Distinguished Professor of Information Systems at the E. J. Ourso College of Business Administration at Louisiana State University. At LSU he also serves as Director of the Center for Virtual Organization and Commerce. He is currently on leave from LSU and is Martin F. Schmidt Chair and Visiting Professor at the A.B. Freeman School of Business at Tulane University.

His scholarly contributions have been recognized by the *Management Information Systems Quarterly*, who named him as one of two recipients of its distinguished scholarship award. Blake has served on the editorial boards of numerous journals, including the fields most distinguished, *The Management Information Systems Quarterly (MISQ)* and *Information Systems Research*. His eleven years on the *MISQ* board included three as Editor-in-Chief and three as Senior and Founding Editor of *MISQ Discovery*. Blake was also recently honored as one of the first Fellows of the Association for Information Systems and is President-Elect of that organization. He also serves on its Senior Editorial Board. He has also served on the Board of Directors for the Society for Information Management International (SIM). He has twice had papers given awards in the SIM paper contest.