2000

Intranets as a Source of Increased Virtuality in Franchise Organizations: Observations and Research Directions

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Abstract

Franchising — a common organizational form for forty years — has always been virtual. This paper reports on some observations and outcomes of intranet implementation at three franchise organizations. Initial findings suggest that the ability to monitor and/or participate in franchisee-to-franchisee communications on the franchise organization's intranet has potential to change franchisee-franchisor relationships, increase virtuality, and facilitate technology adoption. Research directions are suggested to learn how intranets and other technologies affect the virtuality of franchise organizations.

Introduction

Communication is paramount in virtual organizations (Burn and Barnett, 1999; Christie and Levary, 1998; Scott and Timmerman, 1999); information technology (IT), if not a necessary characteristic of virtual organization, is an enabler of it (IMPACT, 1998; Moshowitz, 1997; Shao et al., 1998; Wilson, 1999). Virtual organizations can be temporary or permanent, inter- or intra-organizational, and include small or large numbers of members (Palmer and Speier, 1997). In today's business environment, some researchers suggest that all organizations tend toward virtuality to a greater or lesser degree (e.g., IMPACT, 1998).

One prevalent business model with a tendency toward virtuality is franchising. Many familiar names such as McDonald's and Mail Boxes Etc., represent the classic franchise organization model. Franchising organizations encompass geographically dispersed, legally independent entities allied for the purpose of engaging in business activities; business partners include the franchisor, franchisees, and third-party suppliers. A franchisor develops a product, process, and/or business format; to allow for less capital-intensive expansion, the franchisor sells franchises to franchisees, which give them the right to operate using the franchisor's brand and standard operating procedures. Typically, the franchisee pays an initial franchise fee and ongoing royalty and advertising payments based upon gross revenues (see Bradach, 1998, for an overview of various franchising arrangements). Franchising is particularly pervasive in the US, with an estimated fifty percent of all retail purchases being made from franchise outlets in the year 2000 (Bradach, 1998).

Franchisors, like other businesses, are adopting intranet technology to support their business partners, especially their franchisees (Dickey and Ives, forthcoming). Because franchisors and franchisees have historically been remotely located and often asynchronous due to operating demands, intranets in franchising appear to be a source of increased virtuality for an already virtual organization. Studying franchising, with its forty-plus-year history, offers greater understanding of the role of technology in increasing virtuality in a widespread organizational form.

The franchise business model has a unique challenge regarding technology implementation and adoption. This can be most easily demonstrated by comparison to conventional non-franchising models: when a conventional company chooses to adopt a technology, a decision is made, personnel are informed, technology is purchased, users are trained, and the company moves forward. While this is a simplistic view of a complex problem, technology adoption issues in non-franchising business structures have been widely researched (e.g., Brancheau and Weatherbe, 1990; Cooper and Zmud, 1990; Davis, 1989; Rice and Aydin, 1991; Taylor and Todd, 1995). One finding of this research stream is that even centralized corporate authority cannot assure that users will adopt a desired technology (Markus, 1983; Orlikowski, 1993). Because franchisors do not have an employer-employee relationship with their franchisees, their ability to mandate use is even lower than in conventional firms. Using a new technology becomes another behavior that franchisors must convince their independent-minded franchisees to adopt, along with advertising, product changes, and the like. While the franchisor may not have ability to compel adoption, they usually have more resources on their side. Not only are franchisors much larger than any individual franchisee, franchisees are less likely to have experts to call upon, have disparate computing literacy, and an olio of technologies. Like their corporate counterparts, franchisors may believe that success depends upon tools such as intranets to increase the effectiveness of their extended multi-party virtual organizations. This paper shares some insights gained from field investigations into IT (specifically intranets) in three franchise organizations and begins a discussion of what might explain the intranet implementation patterns observed.

Franchising Intranet Implementations

In this section, we describe intranet implementations of three franchise organizations: a specialty repair service company (SRSC) with 300 locations, a home inspection service (HIS) with 340 locations, and a pharmacy franchisor (Pharmacy) with 200 stores (IFA, 2000). Due to space limitations, the intranet projects and their status for these firms are summarized in Table 1 in lieu of general discussion.

These cases were chosen because they offer some insight into how intranets can affect the extent of virtuality in franchising organizations. If we were to share their names, these franchises are unlikely to be known to the reader even though they are well established (over 200 locations each and in business for more than a decade). Larger franchise organizations such as McDonald's (with 25,000 locations) may tell us less due to their more institutionalized context: their franchisees are likely to have more resources and an existing technology base, and franchisor-franchisee relationships are more mature.

Smaller franchise organizations which nonetheless have mature brands in their operating territories may be more likely to use publicly available infrastructure and non-proprietary technologies, have fewer resources at both franchisor and franchisee levels, and have franchisor-franchisee relationships that are less stable (as the organization struggles to balance growth of existing franchisees with growth of the overall number of franchisees).

Observations and Outcomes

Franchisee adoption of intranets is not unlike other adoption scenarios reflecting concerns of cost, training, and value for time and effort (IFA, 2000). Franchisors have addressed these issues in a variety of ways including providing technical support, creating financial incentives, marketing online access to documents and forms, and working to be responsive to feedback. Increasingly, franchisors are requiring internet/intranet access in new franchising contracts (see Table 1).

With intranets, franchisor downward communication to franchisees is often improved by greater access to existing materials (e.g., documents, forms). Email capabilities provide a means for asynchronous, rapid feedback to franchisors. However, an area of concern has been the potential for franchisees to use the new
Table 1. Intranet Case Summary for Three Franchise Organizations technology to "flame" or otherwise provide negative input about the franchisor to other franchisees (IFA, 2000).

	SRSC	HIS	Pharmacy
No. of Locations	300 (38 states, 16 countries)	340 (North America)	200 (40 states)
Type & Yrs Operation	Specialty Service; 26	Service; 12	Retail; 30
Intranet Inauguration Date	Early 1997	Mid 1999	Mid 1996
Technology Requirements	browser Internet/ WWW access	proprietary hardware and software (laptop)	browser Internet/WWW access
Guiding Philosophy	*SRSC*: "Function over form"; incremental addition of capabilities *HIS*: Providing customer deliverables; Home Inspection Report (HIR) product *Pharmacy:* "Build a community"; seek financial incentives for adoption		
Franchisee to Franchisee Communication (FTFC)	*SRSC:* Monitored; franchisor responds to explain or defend; mostly self-policing *HIS and Pharmacy:* Monitored only; self-policing		
Trends and Outcomes	*SRSC:* FTFC discussion led to addition of national employee recruitment application at Corporate web site Plentiful and useful franchisee feedback Added links to outside resources and vendors *HIS:* Improved trust and franchisee relationships Faster, 24x7 communication; fewer phone calls to franchisor HIS application now basis for training *Pharmacy:* Feedback affects corporate decisions Offering discounts for supplies have been successful in increasing adoption		
Current Plans	*SRSC:* Discontinue printed copies of franchising materials *HIS:* New application: appointment scheduling *Pharmacy:* Online training & consolidation of supplier information		
Adoption Issues	*SRSC:* Enabled faster feedback in an already strong relationship. *HIS:* Mandatory access date for all franchisees set; "sophisticated franchisees push us" *Pharmacy:* New franchisee agreements require Internet access; old franchisees take "huge effort"		

Material from franchisor representatives at International Franchise Association meeting, February 2000. (IFA, 2000)

Franchisor-franchisee relationships are not trouble-free, in part because the goals of franchisors (e.g., maximize revenue) may differ from the goals of franchisees (e.g., maximize profit, pursuit of a lifestyle)

(Bradach, 1998; Dickey and Ives, forthcoming). Yet, these three cases illustrate that lateral communication between franchisees (without the franchisor mediating) can solve operational problems for which corporate personnel may have less insight or experience. Further, this peer-to-peer interaction appears to improve identification with the brand and compliance with franchisor requests (IFA, 2000). More importantly, such flaming is not only *not* a serious issue with the franchisees generally self-policing the postings, but the ability of franchisors to monitor lateral communications among franchisees allows issues to emerge which can be best addressed by franchisors at a broader level.

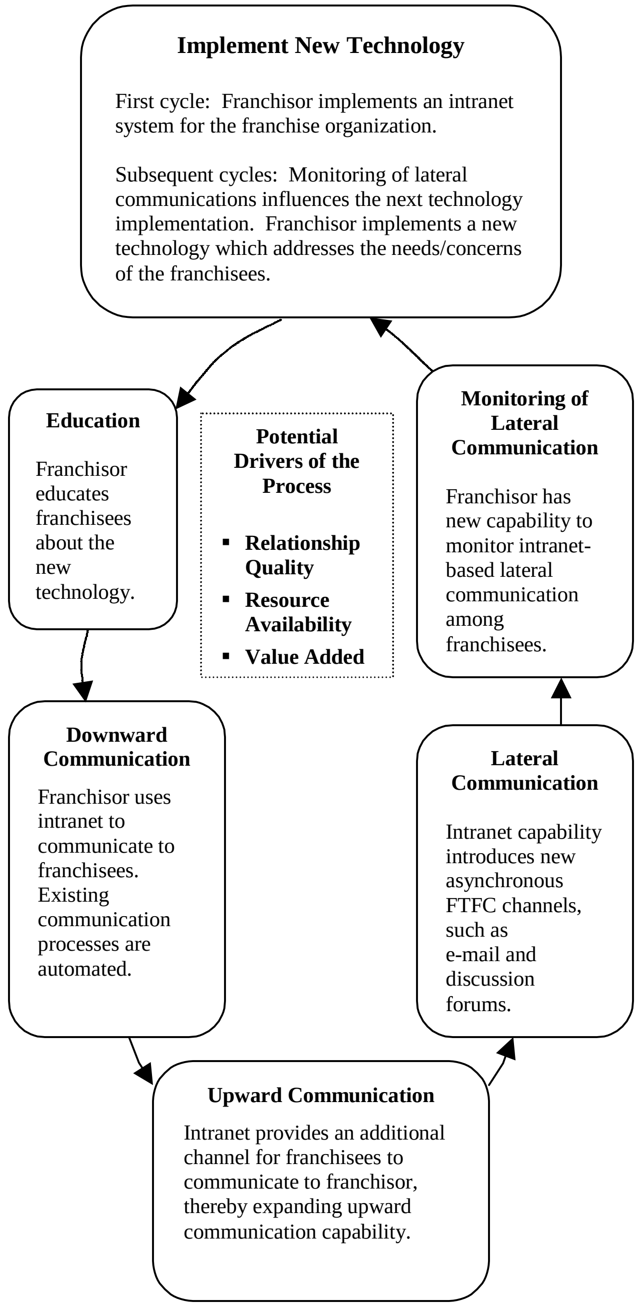
In our three cases, all franchisors reported that they had implemented changes based on franchisee feedback (Table 1). Further, a consistent theme is that rather than being a negative, lateral communication and the ability to monitor it has proved valuable as a means to identify recurring problems, a source of new ideas and refinements, and a way to improve franchisee-franchisor relationships. This value appears whether or not the franchisor rebuts comments or otherwise responds to the franchisees' peer communications. Thus, contrary to expectations, fostering lateral communications has been crucial to improving the effectiveness of these virtual organizations in practical terms such as problem solutions; the franchisors also report improved trust and franchisee relationships. The CIO of Pharmacy put it like this: "We're building a community — creating an environment, creating democracy" (IFA, 2000).

Figure 1 is a first attempt to describe the pattern of this phenomenon and to identify factors that may be influential in enabling greater virtuality among franchise organizations. Space constraints preclude a lengthy discussion, but there are a few key points to be made. First, the observed intranet implementation pattern shows that existing communication processes are automated first, expansion of existing channels occurs next, and then new communication processes and options emerge. The capability that is the most interesting is the lateral communication among franchisees and the resulting changes in franchisee relationships with other franchisees and with franchisors.

Franchisee-to-Franchisee Communication (FTFC) may exist without the intranet in the form of telephone conversations, faxes, and possibly face-to-face interaction at annual conferences. However, given the variable schedules of franchisees (many work long hours at multiple locations), indications are that FTFC is infrequent, and if it does occur, each franchisee is in contact with only a few of hundreds of franchisees.

When an intranet system is adopted franchisees must obtain Internet access, and therefore, two new FTFC channels emerge: (1) franchisor-sponsored FTFC on the intranet (i.e., web discussion board) and (2) e-mail outside the intranet. Both channels are asynchronous, support remote operations, and persist through time; however, only the FTFC on the intranet can be *monitored* by the franchisor. In addition, the franchisor may choose to *monitor or participate* in the FTFC on the intranet, but cannot do so for direct email between franchisees.

Figure 1. Observed Intranet Implementation in Franchise Organizations



Not unexpectedly, increased participation and positive outcomes of that participation appear to set the stage for the implementation of more advanced applications of IT. It is our observation that the availability of a lateral communication channel *and the ability of the franchisor to monitor it* may be instrumental in gaining benefits that promote adoption of this and future technologies.

Research Directions

The recency of our work in this area means that we have not been able to pursue research to confirm these results or to discover the instrumental factors. In this section, we do offer some initial research directions and welcome suggestions of research questions, design, and guiding theories and models.

Not only has intranet technology has made communication channels in several directions more effective and efficient, the fear of the three franchisors that FTFC would promote franchisor-bashing and other flaming was not founded. Indeed, the negative has now become a positive force and valued element of the franchise intranet, appearing to affect both franchisee-to-franchisee relationships and those between franchisors and franchisees. Here are some research questions that have emerged from these initial findings:

- Has the total amount of communication between franchisees increased?
- What is the impact on the amount of communication between franchisees and franchisors?
- Do franchisors that provide and monitor FTFC implement IT that is more likely to be adopted by franchisees?
- Do franchisors that provide and monitor FTFC have higher franchisor-franchisee relationship quality than franchisors that do not provide and/or monitor FTFC?
- Who is doing the monitoring, what constitutes monitoring, and what factors contribute to the ability to take action on the content (vis-à-vis non-monitored modes of peer-to-peer communication such as phone and e-mail)?
- Are all comments (e.g., and their sources) treated equally?

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