No-Format Franchising: A new form of entrepreneurship and sustainable growth

Sandra Marnoto[1], PhD

ISMAI – Maia High Education Institute

UNICES – Research Unit on Business Sciences and Sustainability

Av. Carlos Oliveira Campos. 4475-690 Avioso S. Pedro – Portugal

smarnoto@docentes.ismai.pt

[1] Sandra Marnoto is a Researcher and a Professor at ISMAI - Maia High Education Institute. She holds a degree in Management, a Master in Finance and a PhD in Management Science. She has published several international articles, books and book chapters. She has worked for the multinational group SONAE as a management controller and has been a co-founder of the retail company HOZAR Portugal.

Abstract

In the last years, a new form of franchising seems to be emerging where franchisors give franchisees more autonomy and decision power than Business Format franchisors do. As such, not surprisingly, these agreements are called Freedom or No-Format Franchising. Yet, although franchising has been researched comprehensively for the last decades, this new sort of arrangement has not yet received due attention.

This paper analyses No-Format Franchising by comparing it against the standard Business Format agreements. The discussion does not aim to suggest that there is one best model, but to understand the trade-offs between the two systems and how each might suit different activities.

The analysis is focused on Business Format Franchising benefits and difficulties, emphasising the importance of franchisees' diversity and autonomy for the network's innovation process. The debate leads to the discussion about the possible virtues of No-Format Franchising regarding innovation.

Finally, it is also claimed that No-Format Franchising can improve the adaptability and flexibility of these agreements, thus further contributing to its economic relevance.

Keywords: franchising, entrepreneurship, autonomy, diversity, innovation

1. INTRODUCTION: FRANCHISING AS AN ECONOMIC GROWTH ENGINE

According to the European Franchise Federation (EFF, 2011), franchising has proven to be an engine for economic activity and wealth creation in Europe. It is also a recognised successful way to promote employment and turnover worldwide (Norton, 2004). In fact, franchising seems to be an important device for the promotion of economic development by inducing entrepreneurship, self-employment, job creation, exportations, foreign investment and ultimately wealth generation (EFF, 2011).

On one side, franchising is an important effective strategy for the franchisors' business development and growth both at domestic and international level. McDonald's is probably the most successful example of how it can enhance a firm's national growth and worldwide expansion. According to McDonald's Corporation, in 2012, the network was present in 119 countries with more than 34.000 restaurants, 80% of which were franchised, employing 1.7 million people worldwide. Indeed, by helping the franchisor firms overcome different sorts of resource constraints (*e.g*. Oxenfeldt and Kelly, 1969) as well as by relieving them from several management troubles (*e.g.* Brickley and Dark, 1987), franchising works as an important lever for the expansion of their businesses.

On the other side, franchising is also an equally important system for start-up creation, survival and growth by guarantying the franchisor's on-going business support to franchisees' smaller firms. Above all, franchising has an important role in the promotion of entrepreneurship and self-employment since it might reduce the risk of the enterprise due to the franchisor's assistance throughout the life of the franchise contract and also the franchisor's brand name and business concept (EFF, 2011).

But franchising's economic importance is also due to its ability to adapt to different business contexts and realities. Indeed, it is used in numerous business areas, such as automobile dealership, automotive products and services, gasoline service stations, construction and maintenance, domestic and childcare services, fast-food and non-food retailing, just to name a few (Blair and Lafontaine, 2011).

Yet, the diversity of settings where franchising emerges as well as the fact that these arrangements have been changing and evolving over time make it difficult to find a general definition which accounts for all those diverse circumstances (Norton, 2004).

Trying to cope with this diversity, authors and researchers have identified different sorts of franchising. But the most important distinction is probably that between *Traditional* and *Business Format Franchising*.

In the relationship which is nowadays called *Traditional or Product and Trade Name Franchising*, franchisees have the right to sell the product and use the brand of the franchisor but they do not get much support from it. This was the predominant form of franchising until the Second World War. Presently, the franchisors are much more involved in the relationship, passing on the know-how about the business to the franchisees. This form of franchising is called *Business Format Franchising* and it is the most widespread type of franchising today (Blair and Lafontaine, 2011).

But, in the last years, a new form of franchising seems to be emerging, where franchisors are also deeply involved in the relationship with the franchisees, but give them more autonomy and decision power than *Business Format* franchisors do. As such, not surprisingly, these agreements are called *Freedom or No-Format Franchising* (Streed and Cliquet, 2010). Yet, although franchising has been researched comprehensively for the last decades, this new sort of arrangement has not yet received much attention.

In the following sections, *No-Format Franchising* will be analysed and compared against standard *Business Format* agreements. This paper begins with a short debate over the definition of *Business Format Franchising*, trying to understand what distinguish it from other sort of arrangements. This discussion is followed by a short review of *Business Format Franchising* benefits and difficulties, focusing on the importance of franchisees' diversity and autonomy for the network's innovation process. The debate leads to the discussion of the possible virtues of *No-Format Franchising* regarding innovation. Nevertheless, it is argued that there is not a best model. The trade-offs between the two franchising systems should be known and considered to determine which one is best suited for a particular business. Finally, it is also claimed that a new form of franchising can improve the adaptability and flexibility of these agreements, thus further contributing to its economic relevance.

2. BUSINESS FORMAT FRANCHISING

According to Blair and Lafontaine (2011: 6), the U. S. Department of Commerce has, historically, distinguished *Traditional* and *Business Format Franchising.* In 1988, it described *Traditional Franchising* as an agreement where the franchisees focused on the franchisor's product line and somehow identified their business with that of the franchisor. In contrast, *Business Format Franchising* was described as comprising more than the permission to use the franchisors' trade name, product and service. It should also cover all aspects of an entire business format such as operating manuals, quality control standards and a marketing strategy.

In Europe, the Block Exemption Regulation on Franchise Agreements[2] has provided, to some extent, a standard legal definition for franchising (UNIDROIT, 2007). Norton (2004: 18) summarises the European Union's view on franchising as a "…package of industrial or intellectual property rights" with three identifying features - "a common name or sign, with a uniform presentation of the premises, communication of know-how from franchisor to franchisee, and continuing provision of commercial or technical services by the franchisor to the franchisee."

The description of *Business Format Franchising* in the European Code of Ethics for Franchising was prepared in consultation with the European Commission and is in agreement with the standard legal definition (UNIDROIT, 2007). According to that document, *Business Format Franchising* rests upon a written contract between two legally, financially and fiscally separate and independent firms, whereby the franchisor grants each of its individual franchisees the right, and imposes the obligation, to conduct a business in accordance with the franchised concept - which is formatted so as to create a recognisable common identity for the franchised brand and business. This contract entitles and compels the individual franchisee, in exchange for a financial payment, to use the franchising package. This is composed of the franchisor's trade name, know-how, business and technical methods, procedural system, and other industrial and /or intellectual property rights, supported by continuing provision of

[2] Commission Regulation (EEC) n. 4087 of 30 November 1988 on the application of Article 85 (3) of the Treaty to categories of franchise agreements (OJ EEC L 359/46 of 26 December 1988)

commercial and technical assistance, for the term of the written franchise agreement (EFF, 2008).

However, to many academics, the definition of *Business Format Franchising* is not that simple. For instance, in 1995, Klein argued that, in the United States, the legislation did not even provide for a clear economic criterion to distinguish franchising from other distribution arrangements. To Klein (1995: 12), "control, exclusivity and standardisation" are the only basis by which a distribution arrangement may be labelled as a franchising agreement. Since these dimensions can be arranged into a variety of combinations, "one is likely to find a continuum of contract arrangements along each of these dimensions", therefore Klein claims that the difference between *Traditional* and *Business Format Franchising* is somewhat blurred and subjective. Blair and Lafontaine (2011: 8) agree with Klein and consider that "in the end, the distinction between traditional and business format franchising is somewhat arbitrary and basically a matter of degree''.

In spite of that difficulty, or because of it, this topic is often present in franchising literature, with several authors trying to characterise *Business Format Franchising*. This paper will follow Kaufmann and Eroglu (1998) who have tried to identify the key features that outline *Business Format Franchising*. According to them, these are:

1) the characteristics of the product are the only features of the business format that define its market niche. This is the case of the product assortment offered to customers;

2) a set of visual elements - like the employees' uniform - that links a unit to its network;

3) a set of procedures that is the basis for the efficient functioning of the business both at the unit and the network level. Equipment, layout and design are examples of these procedures at the unit level. At the network level, there are, for example, royalty payments.

Still, regardless of the debate concerning its definition and characterisation, franchising has been thoroughly studied for the past decades by Economy, Management and Marketing researchers. Each of these lines of study has different purposes and focus on diverse aspects of franchising (Elango and Fried, 1997). Several questions have been raised and answered with different levels of consensus.

The research in the field of Management has mainly focused on the reasons why firms choose to franchise, the choice regarding contract terms, the incidence of vertical integration (*e.g.* Lafontaine, 1992), and, more recently, the processes of knowledge creation and transfer inside the franchising network (*e.g.* Argotte and Darr, 2000).

This extensive literature has identified several benefits and also a few problems that might be produced by franchise agreements. In the next section, only a few of these, due to its significance for the rest of the work, will be briefly reviewed and summarised. It must be noted, however, that some of these gains and shortcomings concern franchising in general, but they will be reviewed specifically in the context of *Business Format Franchising*.

3. BUSINESS FORMAT FRANCHISING: STRENGTHS AND WEAKNESSES

In order to produce and market a good, several economic activities have to be undertaken and therefore coordinated. This can be achieved as a result of vertical integration, active participation in the market and the development of inter-organisational relationships (Richardson, 1972). The question is why "so many firms involved in such different activities [have] all chosen to organise themselves as franchised companies" (Blair and Lafontaine, 2011: 1).

Essentially, franchising displays a couple of advantages similar to vertical integration. It benefits from "comparative advantages in creating brand recognition and capturing economies of scale" of different types (Blair and Lafontaine, 2011: 1), such as in marketing, input acquisition and management.

Indeed, the increased mobility and time restrictions of consumers have led to an increased reliance on brand names, and thus a higher propensity to establish business chains (Blair and Lafontaine, 2011). The geographical dispersion of a chain's outlets contributes to the penetration and coverage of the market(s), therefore strengthening the brand and protecting it against rivals (Caves and Murphy, 1976). Further, business chains allow firms to benefit from economies of scale in the promotion and marketing of that brand as well as economies of scale in general management tasks and, in addition, savings in input acquisition due to higher volumes of purchases (*e.g.* Oxenfeldt and Kelly, 1969; Rubin, 1973; Caves and Murphy, 1976).

But these advantages are not franchise-specific. A vertical integrated chain can also enjoy these benefits. The franchising attractiveness is due to the fact that, in these networks, the market penetration and coverage can happen faster, since these arrangements might help mitigate resource limitations of different types, such as capital constrains (Caves and Murphy, 1976), local information restrictions (Minkler, 1990) and management talent Penrosian-like constraints to growth (Oxenfeldt and Kelly, 1969).

Franchising might also relieve franchisor firms from some management problems, like motivating unit managers to improve the outlets' performance (Rubin, 1973) and controlling them for shirking and perquisite-taking[3] (*e.g.* Brickley and Dark, 1987).

Finally, the diversity of franchisees in a franchise chain may also be important (*e.g.* De Castro *et al.*, 2009). Since they are closer to the local market, franchisees may not only be a source of local information but also a "source of local ideas" (Cliquet and Nguyen, 2004), thus, contributing for the network's innovation process.

To fully grasp the significance of *Business Format Franchising* strengths and weaknesses, one must first realise uniformity as a central feature in this model. Streed and Cliquet (2010: 206) explain that "the rationale behind standardization is the ability to protect the brand integrity, to realize economies of scale by implementing turn-key systems, and to provide a consistent experience to the consumer".

Actually, standardisation contributes to the unified identity of the network and the brand name image because consumers know what to expect when entering in a chain's outlet at a distant location for the first time (Brickley and Dark, 1987). Standardisation also makes it possible to dilute the costs of generating and acquiring new knowledge among the units of the network (Sorenson and Sørensen 2001).

[3] According to Agency Theory, franchisees also have to be monitored. Nevertheless, it is easier and less costly to monitor franchisees than to control unit managers. (*e.g*. Brickley and Dark, 1987).

Seeking to avoid a loss in uniformity, franchisors develop manuals, procedures, routines and control mechanisms. Yet, maintaining the chain's uniformity might be difficult.

As in any other activity, franchisor organisations face the need to progress which means to develop the franchised concept. But the implementation of innovations might be harder in a franchising network than in a vertically integrated chain (*e.g.* Cliquet and Nguyen, 2004).

In order to maintain uniformity, every unit in a network has to adopt the franchisor's improvements. However, those improvements often demand capital expenditures that franchisees might not be willing to make (Brickley and Dark, 1987; Brickley *et al.*, 1991). As the franchisor cannot force franchisees to invest in those changes which were not anticipated in the franchise contract (Cliquet and Nguyen, 2004), that results in an under-investment problem (Brickley and Dark, 1987; Brickley *et al.*, 1991) that harms the standardisation of the chain. For some franchisors the problem might be so important that, sometimes, with the intention of guarantying a certain degree of standardisation, franchisors buyback some outlets and invest in the implementation of those improvements.

But this is not the only problem regarding uniformity that franchisors have to face. Another difficulty is local responsiveness (Bradach, 1998). A widespread chain has to balance the need to adapt to diverse local conditions with the need to preserve the uniformity of the franchised business (Cox and Mason, 2007). Kaufmann and Eroglu (1998) categorise the key features that shape Business Format Franchising in "core" and "peripheral components", and argue that only the latter can be adjusted to the local characteristics while the former have to be preserved. Therefore, franchisors must decide which features can and need to be changed locally. This problem, however, would not be eased by vertical integration. Quite the opposite, franchisees may actually help franchisors decide which contingent adaptations are needed (Bradach, 1998).

4. INNOVATION, DIVERSITY AND NO-FORMAT FRANCHISING

Contrary to traditional franchising theories (*e.g.* Elango and Fried, 1997), there is a growing number of reports that document franchisees' active role in the franchising relationship. The empirical evidence gathered in the last years has given support to the importance of franchisees as a source of ideas regarding the development of new products (*e.g.* Love, 1986; Argote and Darr, 2000).

Also, a growing number of academics have been studying the active contribution of franchisees. Cliquet and Nguyen (2004: 109-110), for example, claim that franchisees are "a good source of local ideas" because they have a high incentive to improve their unit's performance, together with a better knowledge of the local market, a closer proximity to customers, and a "good intuition based on their experience". Thus, franchisees are no longer perceived as passive users of franchisors' expertise.

Likewise, franchising is not merely seen as a growth strategy through the reproduction of identical units, where the franchisor and the franchisee have a top-down relationship (Elango and Fried, 1997). Quite the opposite, "in the ideal franchise relationship, each party is able to specialize in what each does best and yet benefit from the efforts of the other" (Blair and Lafontaine, 2011: 2).

In fact, blending franchisor's capabilities with those of the franchisees' may be so significant that it may contribute to the emergence of franchise agreements, both at the business and unit level (De Castro *et al.*, 2009). Furthermore, since the encounter of heterogeneous knowledge promotes learning and innovation (*e.g.* Ritter *et al.*, 2002), the combination of franchisor's capabilities with those of various franchisees may be important to knowledge creation and innovation. Thus, the franchisees' different locations and past experiences might turn them into sources of dynamic capabilities for the network (De Castro *et al*., 2009).

As franchising partners and networks are heterogeneous, it is natural that one may find an assortment of strategies followed by franchisors in order to manage the relationships within the chain (Dant and Gundlach, 1999). These diverse strategies include different levels of appraisal regarding the franchisees' role, control and autonomy (Cochet *et al.*, 2008; Pinzanti and Lerner, 2003). Certainly, the degree of control and autonomy depends on the franchisor's expectations about the franchisees' role in the relationship. Anyhow, franchisor's control and franchisee's autonomy are certainly important variables to think of when considering differences in networks' performance regarding innovativeness.

Although most franchisors still seem to disregard the potential of franchisees' active contribution[4] (Cox and Mason, 2007), nowadays some franchisors, acknowledging the importance of franchisee diversity and autonomy, are less troubled about standardisation and more focused on creating a network of partners that share capabilities. Thus, a new form of franchising might be developing, where franchisees are less inhibited by franchisors' rules and are welcomed to exploit and explore their knowledge.

One of those cases is the *Great Harvest Bread Co.* (Flandez, 2007; Tozzi, 2008; Streed and Cliquet, 2010) which is a franchisor company of bakeries in the United States that describes itself as a freedom franchise. At *Great Harvest*, franchisees get all the benefits of *Business Format Franchising* contracts, such as the right to use the franchisor's brand name, to access and acquire its know-how and to get continuous commercial and technical assistance. But contrary to *Business Format Franchising*, they have little constraints on how to develop their businesses. In fact, franchisees are encouraged to figure out their own business format, for example deciding upon the look of the bakery and even marketing mix elements like the products offered to customers and promotional campaigns[5].

Actually, *Great Harvest Bread Co.* is mainly focused on the creation and maintenance of a network of entrepreneurial franchisees that are expected to take part in the innovation process within the network. Indeed, they are praised for developing new bread recipes or innovative promotional ideas. Since standardisation is not an issue, innovations flow through the network freely with each franchisee deciding on whether to adopt them or not at its own unit. Not surprisingly, this franchisor acknowledges that the active participation of everyone can be much more profitable than the sole

[4] This is probably a result of a predisposition that all network participants have to control it, even though network control might constraint innovation by limiting diversity (Ford *et al.*, 2003).
[5] Typically, in the Business Format Model these decisions are reserved to franchisors.

inventive action of a few at headquarters. Somehow it recognises that all participants in the network can profit from the existing diversity and that network control can harm innovation.

In fact, *No-Format* or *Freedom Franchising* seems to be both an outcome of the franchisor's conscious will to use franchisees as a source of dynamic capabilities and a stimulus for the development of franchisees' entrepreneurial capabilities. Thus, it seems to engender more innovative franchising networks.

5. NO-FORMAT OR BUSINESS FORMAT FRANCHISING?

This section aims to identify the virtues and downsides of *No-Format Franchising* when compared to the *Business Format* model. But the discussion about the advantages of one franchising system over the other does not have to imply that there is *one* best model. Truly, franchising economic importance is very much related to the diversity and flexibility of these agreements, which means that a new form of franchising can improve its adaptability to different contexts. In the end, what really matters is to understand the trade-offs between the two systems, and figure out which one is best suited for a particular business.

To begin with, the *No-Format Franchising* system may keep the advantages of *Business Format* for the most part. In fact, a *No-Format Franchising* network can, just as easily as a *Business Format* one, help franchisors overcome resource constraints to growth and free them from the need to motivate and control unit managers. Also, either system can benefit from economies of scale. For example, there will always be savings in the promotion and marketing of a single brand. Likewise, the development of a non-standardised chain does not have to stop franchisor and franchisees from using the same input suppliers, if they wish to, and therefore attaining cost reductions. However, the possibility that *Business Format Franchising* might generate higher savings must not be excluded.

A main point to this discussion has to be, obviously, the question of Uniformity. To franchisors, the *No-Format Franchising* model eliminates the direct and the indirect costs of standardisation. The direct costs are those related to the format development, the creation of manuals, procedures and routines that ensure the unity of that format, and, finally, the control of franchisees regarding their compliance to those standards. The indirect costs of standardisation concern those related to franchisee underinvestment, and, consequently, the difficulties in the diffusion of innovations through the network. They also include the costs that result from the need to balance uniformity with local responsiveness.

Naturally, other type of costs will take their place. Using Kaufmann and Eroglu's (1998) distinction between "core" and "peripheral components", Streed and Cliquet (2010) suggest that the "core components" of *No-Format Franchising* networks have to be identified and kept intact in every unit, while the "peripheral components" can be 'customised' by franchisees. Therefore, *No-Format* franchisors must decide on the "core components" of the network and develop procedures to keep them untouched. This surely has a cost but, possibly, this cost is lower than those of standardisation. Since uniformity implies formalisation due to the need for complex detailed written procedures, it tends to lead to more bureaucratic organisations with higher organisational costs (*e.g.* Morgan, 1998).

Moreover, although one cannot neglect the importance of standardisation for brand recognition and the unified identity of the network, it is also important to recognise that there is a growing tendency towards customisation (*e.g.* Gardyn, 2001). Streed and Cliquet (2010: 206) claim that "industrialization of retail and service activities [...] was one of the major trends of the end of the XXth century and beginning of the XXIst (Cliquet *et al.*, 2006), but new processes should now be considered". They also add that "[i]n an era where mass-customization is becoming a driving force in manufacturing it is surprising to notice that business-format franchising is still for the most part resisting the idea of customization". In this context, the authors assert that *No-Format Franchising* might help franchisors deal with the present consumer trend towards customisation.

The debate over the advantages of *Business Format* and *No-Format Franchising* must also focus on the differences in franchisees' perceptions and consequent behaviour in each system. *Business Format Franchising* lures franchisees due to a few perceived advantages over a totally independent enterprise. When an entrepreneur starts a franchised business, s/he believes to be taking a lower degree of risk than that s/he would be exposed to if s/he had chosen a totally independent venture (Blair and Lafontaine, 2011). This happens because the franchisee firm uses a business concept that typically has already been successfully tested.[6] In addition, it operates under a logo that is usually linked to a well-known and well-reputed established brand which allows it to profit from a safer exploitation of the market.

While joining the network, the franchisee has access to a whole system of doing business by receiving training and on-going technical, commercial and management assistance from the more experienced franchisor as well as access to permanent maintenance and development of the business concept[7].

Finally, by participating in the franchising chain, it also enjoys economies of scale in advertising and in the acquisition of inputs, along with the possibility of easier access to financing. When asked for a loan, the bank will look at the franchisee's firm as part of a network, which is usually already known by the markets. This may reduce the information asymmetry between the start-up firm and the creditor, leading to lower interest rates and higher rates of credit approval (Rubin, 1973).

When buying a *Business Format Franchise*, entrepreneurs are offered all those benefits in exchange for a loss in autonomy. Even though they own an independent business, they are contractually complied to follow franchisors' instructions regarding questions such as the location site, the outlet design, the decoration on the shop windows, the average level of stocks, and the list of approved suppliers. Franchisors may even have a say regarding the potential sale of their business (Cherto, 1989; Leite, 1990).

This loss of complete autonomy may give rise to problems between franchisors and franchisees. Blair and Lafontaine (2011: 291) describe how "some franchisees are simply ill-suited to being part of a chain where uniformity is essential". They mention that "[t]hese people are just too independent. They want to change the menu, select a

[6] Although a firm should only start selling franchises after a few years in operation, sometimes small immature firms are able to do it.
[7] Brickley and Dark (1987) argue that franchisors' opportunism might make them decide to stop maintaining and developing the business.

different location, have different hours of operation, and so on". Therefore, to these authors, as "those individuals who seek significant independence should not invest in a franchise", franchisors should "develop franchise sales and franchisee selection procedures" that would avoid them from being selected.

However, in face of what has been described in the last section, the central question is whether by doing it franchisors would be making an adverse selection. Would they be leaving out the people with the best entrepreneurial drive and skills? What is more, would they be contributing to the chain's mediocrity (*e.g.* Luxenberg, 1985; Birkeland, 2002; Streed and Cliquet, 2010)?

The loss of franchisees' autonomy is indispensable in *Business Format Franchising* because without it the franchisor would not be able to guaranty the chain's uniformity. The more valued uniformity is by the franchisor, the least autonomy it will give franchisees and tighter will be the control exerted on them. Tighter control, per se, means less diversity and less innovation (Ford *et al.*, 2003). But less autonomy might also be harmful to innovation because it might hold back the franchisees with best entrepreneurial skills (Birkeland, 2002). In fact, *Business Format Franchising* seems to be more appealing to those who lack the human capital needed to set up a business on their own (Blair and Lafontaine, 2011). Further, uniformity demands for a high degree of centralisation and formalisation which, in turn, leads to rigid, bureaucratic, non-adaptable organisations which might compromise innovation (*e.g.* Morgan, 1998). In sum, like Streed and Cliquet (2010: 208) put it "avoiding entrepreneurial talents and rewarding strict conformity may impair the chain's ability to innovate and compete".

On the other hand, while *Business Format Franchising* offers franchisees the prospect of a less risky endeavour in exchange for a lower independence, *No-Format Franchising* gives franchisees the possibility to start and develop their businesses, backed up by the franchisor, but enjoying more autonomy and decision power as well as the chance to use their initiative. Therefore, it might attract franchisees with better entrepreneurial characteristics that, together with the existing diversity in the network and the looser control exerted by the franchisor, might contribute to the development of more innovative franchising organisations.

Finally, having discussed the characteristics and trade-offs between *No-Format* and *Business Format Franchising*, it is now possible to try to understand which model is best suited for which particular kind of business. Gareth Morgan is his book *Images of Organization* (1998: 32) describes the following:

> McDonald's built a solid reputation for excellent performance in the fast food-industry by mechanizing the organization of all its franchise outlets all over the world so that each can produce a uniform product. It serves a carefully targeted mass market in a perfectly regular consistent way. The firm his exemplary in its adoption of the Tayloristic principles (…)

Therefore, the merits of *Business Format Franchising* in activities (like fast-food restaurants) that demand for routinisation and mechanisation of simple tasks, deskilled jobs, mass production, efficiency, predictability, and control seem to be unquestionable. On the other hand, *No-Format Franchising* by shaping a more decentralised, less formalised and more innovative network appears to be more appropriate for activities that demand greater flexibility, adaptation, customisation and innovation (*e.g.* Streed and Cliquet, 2010). As a result, *No-Format Franchising* may expand the range of uses of franchising contracts to activities that would otherwise be incompatible with this type of agreements. An example of one of such activities is the rural tourism industry.

Although *Business Format Franchising* is already at use in several tourism trades, for example adventure tourism firms, travel agencies and hotel chains, this business concept hardly fits the 'rurality' (Hoggart, 1990) experience that rural tourists wish to enjoy.

Visitors to the countryside "are attracted to rural areas by their distinctive regional, social and cultural heritage, landscape qualities and perceived cleaner environment" (Hall 2004: 165). Indeed, the standardisation which is the core feature of *Business Format Franchising* does not seem to be feasible for the rural tourism industry, where demand is commanded by the peculiarities of a specific region or place, as well as the desire to feel rurality (Sharpley and Roberts, 2004).

Non-standardised partnerships such as *No-Format Franchising*, however, may allow rural tourism businesses to benefit from franchising, helping the entrepreneurs to share experiences, resources and capabilities and thus reducing their small-business weaknesses[8] without setting aside their authenticity as well as the traditional, cultural and historical features that charm their clients (Marnoto and De Castro, 2009).

6. CONCLUSION

In this paper, *No-Format Franchising* was compared with the *Business Format* model. The discussion did not intend to show that there is *one* best model but to understand the trade-offs between the two systems (Figure 1). These should be known and considered to determine which one is best suited for a particular business.

Figure 1 –No-Format *vs*. Business Format Franchising Benefits

NO-FORMAT FRANCHISING BENEFITS
WHEN COMPARED TO THE BUSINESS FORMAT MODEL

- **promotes the same benefits (except, perhaps, lower savings resulting from economies of scale);**
- **attracts franchisees with finer entrepreneurial skills;**
- **engenders more innovative organisations;**
- **eliminates standardisation costs (replaced for other probably lower costs);**
- **helps dealing with the present consumer trend towards customisation;**
- **widers the span of activities where franchising might be used.**

With *No-Format Franchising*, entrepreneurs get all the support given to *Business Format* franchisees, but they enjoy more autonomy and are freer to use their initiative. To franchisors, this means they might be able to get franchisees with finer entrepreneurial skills. This, together with the diversity that characterises networks and the looser control exerted by *No-Format* franchisors, will most probably lead to the development of more innovative franchising organisations.

[8] The rural tourism industry is characterised by the small-scale of the businesses. Yet, although intrinsic to its nature as well as crucial to its sustainability, the typical dimension of those businesses also brings along a set of problems (Sharpley and Roberts, 2004) which comprise, for instance, capital constraints, humble supporting infrastructures, low quality products and services, poor market knowledge and lack of business know-how (Hall, 2004).

Furthermore, *No-Format* franchisors might probably get the same benefits as in *Business Format*. Although, one might assume that *Business Format Franchising* probably generates higher savings resulting from economies of scale.

On the other hand, the *No-Format Franchising* model eliminates the costs of standardisation, particularly those related with franchisees' underinvestment and the need for local responsiveness. These costs will surely be replaced for new costs which one might expect to be lower. *No-Format Franchising* might also help franchisors deal with the present consumer trend towards customisation.

Finally, *No-Format Franchising* might allow the use of franchise agreements in activities where *Business Format Franchising* would not work.

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