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Appendix

1   Introduction

The aim of this first chapter is to introduce the reader to the topic. The background of the study will be discussed and the problem statement will be presented along with the purpose of the research.

1.1   Background

The franchising industry in Sweden has experienced a vast growth in the recent years. Between 2008 and 2012, the amount of franchisees, the individuals owning a franchise store, had grown by 61% and the total sales of the industry had increased by 85% (Svensk Franchise, 2013). The difference is even more radical when comparing to the statistics from 2002. In a decade, from 2002 to 2012, the amount of franchisees in Sweden had more than tripled and the industry sales had experienced a massive growth of 413% (Svensk Franchise, 2013). Franchising, as an industry that is experiencing a huge growth, is therefore a vital part of the Swedish economy and an important topic of research.

The importance of the franchise industry can also be recognized in the Swedish GDP and the employment rates. In 2013, the franchise industry made up 5,6% of the Swedish GDP, with sales of SEK 215 billion, and contributed to 2,6% of total employment, employing over 110,000 people in the country, at over 700 different franchise chains and 29,000 specific franchise stores (Svensk Franchise, 2013). Franchising covers many different business sectors in Sweden. The main sectors in the franchise industry are retail, with a 33% share of the industry, and restaurants, with a 12% share. Other sectors with prevalent franchising companies include consulting, automobiles, fitness centers, and transportation (Svensk Franchise, 2013).

The Swedish restaurant industry also experiences growth rates that exceed those of the country's GDP. Between February 2014 and February 2015, the restaurant industry experienced a real growth of 4.8% while Sweden's GDP only grew by 2.7% for the year of 2014 (SCB, 2015). The most important types of restaurants within the industry are lunch and dinner restaurants, hotel restaurants, fast food restaurants, and pubs and bars (SCB, 2015). In general, the service sector, which the restaurant industry belongs to, plays a key role in the country's economy, occupying 72.7% of Sweden's economic sectors in 2013 (World Bank, 2015).

Today, the business environment is very competitive due to the globalization of the economy (De Beule & Nauwelaerts, 2013), and the competitiveness is prevalent especially for small businesses such as franchises. Due to the dynamic nature of the environment, companies need to increasingly strive for improvement in order to sustain their competitive advantage and to enhance their performance (De Beule & Nauwelaerts, 2013). Firm innovation is an important aspect of this, and the importance of innovation has long been stressed in research as well (OECD, 2005).

English and Hoy (1995, cited in Tuunanen 2005) see franchisees are entrepreneurs who display qualities such as risk-taking, innovativeness, and the need for achievement. Tuunanen's (2005)

study of entrepreneurial paradoxes in Finnish franchises lists three main business benefits experienced by franchisees. First of all, internal and external rewards, such as independence, better job satisfaction, and stimulating working environment come up in his research. Secondly, the support provided by the franchisor is a benefit, for example when it comes to franchisee trainings and the opportunity to concentrate on one's own work. Lastly, the ease of the start-up process benefits the franchisee due to the fact that the franchisor manages and controls the main operations of the company and that the business concept is already well-developed.

Nevertheless, participants in Tuunanen's study reported major disadvantages to being a franchisee as well, the main ones being high dependence and responsibility – franchisors displayed excessive control of the franchisees, limiting their entrepreneurial activity and risk-taking, as well as the scope for innovation, planning, and implementation. Therefore, an apparent paradox is emerging from the literature – while on one hand the franchisee is perceived as an entrepreneur and, within the context of a franchise, is able to be independent to some extent, on another hand the franchisor limits the entrepreneurial action taken by the franchisee (Storholm, 1992). The position of innovation in such settings is unclear.

1.2   Problem discussion

There has been debate on the position of innovation in the franchise context. There is discussion on whether innovation, in the context of franchises, is doing more harm to the company than it is good (Dada & Watson, 2013). This is due to the complicated nature of the franchisee-franchisor relationship, where the franchisor imposes rules regarding different aspects of running the business on the franchisee, such as product, service, and process unity and trademark usage regulations. The franchisee also relies on the franchisor to a great extent in order for his own business to succeed and vice versa (Mendelsohn, 2005).

Since it was established before that innovation is one of the key factors that contributes to the sustained success of companies, innovation should be present in franchises as well, and it would benefit both the franchisor and the franchisee to pursue innovation in order to achieve and sustain long-term success. Falbe, Dandridge, and Kumar (1998) state that in the current competitive business environment, franchisors face increased competition and therefore need to support and encourage innovation in its franchisees. However, Kaufmann and Eroglu (1999) argue that the franchise system needs to be standardized in order to maintain uniformity of the brand and quality control. Nevertheless, they acknowledge that under particular circumstances franchisees should be given the freedom to innovate. Therefore, it is relevant to look not only at the pursuit of innovation by the franchises but also at the role of the franchisor in relation to innovation pursued by the franchisees.

The aim of this thesis is to deeper examine the paradox between the importance of innovation in firms, and the nature of the franchise companies. Previous research has focused primarily on all aspects of entrepreneurial orientation in franchises, including risk-taking and pro-activeness on top of innovation (Dada & Watson, 2013), or has looked into the importance of innovation in different types of firms but not in franchises. In this thesis, the aim is to bring together these

two research paths and to investigate the franchise industry from the point of view of innovation in specific.

1.3   Purpose

The purpose of this thesis is to examine Swedish franchises within the restaurant industry and to determine the position of innovation in the franchise context from the perspective of the franchisee. The research questions, which will help the authors to fulfill the purpose of the thesis, will be stated in the theoretical frame of reference after all the relevant literature is presented.

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2 Theoretical Frame of Reference

This chapter of the thesis will look at the theoretical framework that will provide a guideline for the thesis. Previous research on the topics of franchises, innovation theory and entrepreneurial activity will be brought together for better understanding of the franchise context and innovation within it.

2.1 Structural Characteristics of the Franchise Form

Franchising is a complex organizational form consisting of two parties that form a business partnership: the franchisor and the franchisee (Spinelli & Birley, 1996; Davies, Lassar, Manolis, Prince & Winsor, 2011). Miller and Grossman (1990, cited in Spinelli & Birley, 1996, p. 330) describe franchising as "an organizational form structured by a long-term contract whereby the owner, producer, or distributor of a service or trademarked product (franchisor) grants the non-exclusive rights to a distributor for the local distribution of the product or service (franchisee)." Therefore a franchisee is a business owner that locally distributes the product or service provided by the franchisor, and the franchise is the business that the franchisee runs.

There are two main types of franchise arrangements – product, or trademark, franchising and business format franchising (Felstead, 1993). The first type refers to the situation where franchisors are either seeking outlets for their branded products or "seeking someone else to make-up the finished product and distribute the branded product to retailers" (Felstead, 1993, p. 47), while the latter refers to the licensing of rights to copy a unique retail system (Kaufmann & Eroglu, 1999). The thesis at hand focuses only on business format franchising.

2.1.1 Franchise Agreement

A typical franchise agreement is characterized by the franchisee buying the rights to profits from a specific franchisor in exchange for an upfront fee and, throughout the period of the agreement, paying ongoing royalties to the franchisor (Brickley, Dark & Weisbach, 1991). This agreement usually allows the franchisee to use the franchise's trademark and operating procedure in their local market while at the same time still being entitled to personal decision rights such as hiring personnel and choosing a local marketing strategy (Brickley et al., 1991).

The franchisee, however, has to agree to follow certain quality standards imposed by the franchisor (Justis & Judd, 1989, cited in Spinelli & Birley, 1996). The franchisor has the right to monitor the franchisee for quality and for the maintenance of the trademark's value (Brickley et al., 1991).

2.1.2 Franchisor-Franchisee Relationship

Although franchisors and franchisees are legally distinct parties (Mendelsohn, 1995), these parties are overall interdependent in the franchise system since the franchisee has responsibilities to the franchisor and the franchisor is economically dependent on the franchisee (Kumar, Scheer & Steenkamp, 1995). According to Spinelli and Birley (1996), both the

franchisor and the franchisee strive for profits on their own ends, but due to the interrelated nature of the franchise system, the individual entrepreneurs owning a franchise contribute to the profits of the franchisor through the franchise fees, royalty payments, and sales of products and services. This makes the franchisor economically dependent on the franchisee.

However, the franchisor still has the more dominant role in this relationship. The franchisor sets the parameters of the relationship in the form of the franchise contract (Davies et al., 2011). A franchisee is usually recruited on a "take-it-or-leave-it basis" (Felstead, 1993, p. 193) and the franchisee has very little room to negotiate the terms of the relationship, which will then last for five, 10, or 15 years (Felstead, 1993). That is why, according to Felstead (1993), the franchisee is relatively powerless in this relationship right from the beginning of the agreement and cannot "bargain with the franchisor as an equal" (p. 77).

There are three roles that the franchisor, who is "responsible for efficiently managing a complex system of independent business owners", claims (Kaufmann & Eroglu, 1999). According to Kaufmann and Eroglu (1999), a franchisor must fulfil the role of the system creator, builder, and guardian to provide the favorable scale economies for the franchise. It is essential for the franchisor to find a good balance between trusting the franchisee with managerial decisions on a local scale and acting as the system creator. Some franchisors make decisions exclusively by themselves and act as the ultimate system creator – someone with an autocratic leadership style who ignores recommendations and solutions from franchisees. They do so because they are more concerned about earning their royalties than they are about finding new solutions and identifying new opportunities with the help of franchisees (Kaufmann & Eroglu, 1999).

2.2   Innovation

Innovativeness is considered to be one of the main instruments of growth strategies aimed at increasing existing market share and providing companies with a competitive edge (Gunday, Ulusoy, Kilic & Alpkan, 2011). Gunday et al. (2011) state that innovation is a crucial component of corporate strategies since it helps firms to become more productive, perform better in markets, increase customer satisfaction, and as a result achieve a sustainable competitive advantage.

The Oslo Manual is an international source of guidelines for defining and assessing innovation activities in different industries (Gunday et al., 2011). In the context of the thesis, the Oslo Manual (OECD, 2005) has been taken as the main source to describe, identify, and classify innovation. The definitions proposed in the Oslo Manual are derived from the work of Joseph Schumpeter, who was one of the pioneers of innovation theory, and proposed that entrepreneurs are the innovators who bring change to the market and this innovation is the driver of competitiveness and economic dynamics (Sundbo, 1998).

According to the Oslo Manual (OECD, 2005), *innovation* is the introduction of a new or drastically improved product (good or service), process, marketing method, or organizational method in the business. The minimum requirement for innovation to be considered as such is

that it has to be either completely new or significantly improved in the firm. In the context of this thesis, innovation at the firm level means innovation undertaken by franchisees in their specific franchise stores that is new or drastically improved in the whole franchise chain. Therefore, an innovation in a franchise store is considered an innovation only, if it is the first franchise store to implement such an innovation in the chain. The main reason behind innovation is to improve performance, either by increasing demand or by reducing costs, which in turn will affect the rewards of the firm (OECD, 2005).

2.2.1   Four Types of Innovation

The Oslo Manual (OECD, 2005), based on Schumpeter's understanding of innovation, defines four types of innovation:

1. *Product innovation* – "the introduction of a good or service that is new or significantly improved with respect to its characteristics or intended uses" (OECD, 2005, p. 48).

Product innovation in services may include introducing completely new services by the firm, adding new functions and characteristics to an existing product, or implementing major improvements in how products are provided to the customer (OECD, 2005). In the context of this thesis, product innovation covers the food and drinks that are the main service of the restaurant, as well as the environment where the customer consumes the food and drinks, including the opening hours of the restaurant that relate to the way in which the product is provided to the customer.

2. *Process innovation* – "the implementation of a new or significantly improved method for the creation and provision of services" (OECD, 2005, p. 49).

Process innovation may comprise of changes in techniques or equipment that are utilized in the production of goods or services. In the context of this thesis, it means a franchisee improving or developing a technique of providing a service, or the equipment utilized in the production of a service that does not yet exist in the chain.

3. *Organizational innovation* – "the implementation of a new organizational method in the firm's business practices, workplace organization, or external relations" (OECD, 2005, p. 51).

If an improvement or a new practice in the above mentioned aspects is introduced in the franchises that is new in the franchise chain, this is considered an organizational innovation in the context of this thesis.

4. *Marketing innovation* – "the implementation of new marketing methods not previously used by the firm" (OECD, 2005, p. 49).

Marketing innovation includes changes in the marketing mix of a product – its price, packaging, promotion, and placement (OECD, 2005). In the context of this thesis, changes implemented by the franchisees in these areas are considered innovation when they are new in the whole franchise chain, or are improving an existing form of marketing in the chain.

2.2.2 Service Sector Innovation

Link and Siegel (2007) state that a solid model of service innovation has yet to be proposed in the literature. Nevertheless, they state that empirical evidence proves that service industries do innovate, although measuring innovation in such sectors may be difficult since the nature of the output of service industry is abstract and intangible in nature. O'Sullivan and Dooley (2008) write that service innovation is concerned with making changes to products that cannot be touched or seen.

Service-sector innovations are typically based on both market-wide and consumer-specific needs (Link & Siegel, 2007). According to Sundbo, Johnston, Mattsson, and Millett (2001), innovation in the service industry is less technologically driven and more market and consumer driven. Service firm have few R&D activities, and innovation usually comes to the existence by unsystematic work of individuals in the firm. Pilat (2001, cited in Link & Siegel, 2007) states that service innovations are generally small or incremental leading to new applications of existing technologies or work systems.

2.2.3 Radical and Incremental Innovation

According to Norman and Verganti (2014) there are two categories of innovation for products and services – radical and incremental. Norman and Verganti (2014) state that radical innovation introduces a change of frame – "doing what we did not do before" (p. 5). Radical innovations usually result in a fundamental shift from previously existing system(s) since radical innovations target needs that are not currently met or recognized in the existing systems (Singh, 2013). O'Sullivan and Dooley (2008) state that engaging in radical innovation can result in substantial benefits for the organization in terms of increased sales and profits, however, pursuing such innovation is extremely risky and resource-consuming. Radical innovation is a rare phenomenon: it occurs infrequently, approximately one every 5-10 years (Norman & Verganti, 2014).

Incremental innovation encompasses improvements within a given frame of solutions – "doing better what we already do" (Norman & Verganti, 2014, p. 5) Singh (2013) states that incremental innovations satisfy companies' needs of constant improvements of their business through progressive changes. Incremental innovation is less risky compared to radical innovation but growth achieved by incremental innovation is smaller in scale compared to radical innovation (O'Sullivan & Dooley, 2008).

In relation to the four different types of innovation discussed previously, Greenhalgh and Rogers (2010) state that incremental innovations are small improvements to an existing process, product, marketing, or organizational methods, while radical innovation introduces a comletely

new type of service. In the context of this thesis, incremental innovation means an improvement within a franchise that is new to the chain, while radical innovation means the franchisee implementing a completely new element that did not exist in the chain before.

2.3   Innovation and the Franchise System

Although franchises have a different organizational form from other firms, and the franchise contract can be limiting the actions of the franchisee, innovation can exist in this system as well.

2.3.1   Relation between Franchisees and Entrepreneurship

Traditionally, franchisors who start a new business model are considered to be entrepreneurs while franchisees implementing this business model are not (Falbe et al.., 1998; Weaven, 2004; Ketchen, Shorts & Combs, 2011; Dada, Watson & Kirby, 2015). Franchisees are rather referred to as the 'controlled self-employed' rather than true entrepreneurs (Felstead, 1991). In more recent research however, franchisees are increasingly being viewed as entrepreneurs and capable of innovation. According to Davies et al. (2011), franchise organizations can be seen as a community of entrepreneurs, where each entrepreneur (franchisee) is aspiring for autonomy and innovation.

Arguments against seeing franchisees as entrepreneurs mostly concentrate on the fact that franchisees are not being highly innovative when establishing the business (Ketchen et al., 2011). They are not recognizing business opportunities and coming up with a business model of their own. Instead, the franchisor has already identified the opportunity and established the business, and the franchisee merely joins in the process of establishing an already-working business model (Ketchen et al., 2011). It is also said that franchisees are also not as risk-taking as true entrepreneurs (Ketchen et al., 2011).

However, more recent research states that franchisees are still taking a risk when starting up the franchise, although the risk may not be as great as if they were starting a new venture on their own (Ketchen et al., 2011; Dada et al., 2015). The franchisees risk their capital on the success or failure of the franchise and they are responsible for the business first-hand. Although they may lack in innovation in the start-up process since they are not coming up with a new business idea, franchisees are recognizing a business opportunity when starting the franchise, even if it may be limited to realizing that a certain location requires a certain type of store (Ketchen et al., 2011). In addition to that, Withane (1991, cited in Price, 1997) states that the entrepreneurship construct has three implicit dimensions – innovativeness, risk-taking, and proactiveness, and the first two are perceived as vital to the successful operation of the franchise.

Entrepreneurial activities are also not limited to the start-up process. Lumpkin and Dess (1996, cited in Falbe et al., 1998) differentiate entrepreneurship from entrepreneurial orientation, defining the first one as the creation of new ventures, and the latter as the managerial processes

that include entrepreneurial strategies and activities. According to Dada et al. (2015), innovation is a part of entrepreneurial orientation, and their research concludes that some franchisees do pursue innovation in their activities.

Research conducted by Ketchen et al. (2011) also confirms that franchisees can remain entrepreneurial when developing their business as well. A popular opinion is that once the start-up phase is done, the franchisees are nothing but business owners, since their actions are limited by the franchisor's rules when running the business (Ketchen et al., 2011). However, franchisees sometimes have a high degree of autonomy in running their franchise business, and therefore can participate in entrepreneurial innovations (Ketchen et al., 2011).

2.3.2 Franchisee Innovation

According to Stanworth and Curran (1999), several things affect franchise innovation, such as external environmental conditions, the organizational culture of the franchise system, and franchisee characteristics. Sundbo et al. (2001) state that all franchisees do not passively accept the business system but try to develop a partnership with their franchisor in which both can exercise influence on each other. Spinelli and Birley (1996) agree with this less hierarchical view on franchises, looking at the franchisor and the franchisee as two independently liable organizations. According to Sundbo et al. (2001), some franchisees put effort not toward accepting given conditions, but towards changing the conditions by making incremental adaptation innovations. However, Sundbo et al. (2001) note that franchisees have a narrow scope for innovation compared to regular entrepreneurs since they have limited control, and this is the main reason why change is usually incremental in nature. According to the view of Sundbo et al. (2001), franchisees innovate when the standard franchise concept is not functioning successfully in the local environment or because of the negative reactions of customers or employees.

Cox and Mason (2007) have discovered that franchisees are able to display autonomy in relation to adjusting product mix, prices, marketing elements, and recruitment procedures in response to local conditions. Price (1997) found that franchisees may be more oriented towards process innovation since, through such innovation, franchisees may be able to reduce operating costs. Weaven (2004) finds that franchisees are most interested in having control over local marketing, for example advertisements, coupons, and limited promotional activities. Stanworth and Curran (1999) agree by proposing that franchisees can substantially contribute to franchise system innovation through adaptation to local conditions. They also propose that developing new products and services can be another way to innovate in a franchise. According to Price (1997), in some cases franchisees will display innovative capability in new ideas for new products, working practices, and processes by using slack resources to further the objectives of the chain. However, Weaven (2004) has an opposing view on this and states that franchisees do not have enough control in the franchise system to instigate changes in new product or service development.

When examining U.K. fast food franchisees, Price (1997) found that the franchisor may be tolerant of franchisees' incremental process innovations, which are sought to achieve higher

profits, and can even expect franchisees to engage in such activities if these activities do not hurt the brand. However, Price (1997) states that the franchisor is less tolerant about franchisee-initiated product innovations or radical innovation of processes since these initiatives may hurt the brand value to a great extent.

The topic on the types of innovation pursued by franchises leads to the first research question of this thesis:

> **Research question 1:** *What type of innovation do franchises in the restaurant industry pursue, if any at all?*

2.3.3   Positive Effects of Franchisee Innovation

With the current business environment constantly changing and the franchise environment becoming increasingly competitive, innovation, entrepreneurial activity, and the ability to adapt may be required from the franchises to stay competitive (Falbe et al., 1998). Dada and Watson (2013) found a positive correlation between entrepreneurial orientation, which encompasses the innovation aspect, and firm performance in franchises. With the standardization aspect of franchises, the result proves that franchises could benefit from more freedom.

Enabling franchisees to take part in franchise innovation and governance can not only improve efficiency of the whole franchise chain but also increase compliance to overall policies of the franchise system, which in turn decreases friction that can arise between the franchisor and the franchisee (Davies et al., 2011). This kind of increase in compliance can occur due to psychological reasoning; individuals are more likely to agree to external rules when they feel like their opinions and decisions play a role in creating these rules (Boje & Winsor, 1993, cited in Davies et al., 2011).

Price (1997) states that if the innovative capacity of the franchisees will not be heard and appreciated by the franchisor, some franchisees may engage in opportunistic behavior. Baucus, Baucus, and Human (1996) agree that blocking entrepreneurial interests of franchisees may lead to noncompliance, which will be exhibited in different ways such as misrepresentation of costs and revenues, delay of royalty payments, and opposing change required to maintain the competitiveness of the whole franchise. Franchisees may feel demotivated and disappointed when their innovative initiatives are opposed by the franchisor, since they enrolled in the franchise to become their own boss while benefiting financially from a proven business concept (Dant & Gundlach, 1999, cited in Pardo-del-Val, Martínez-Fuentes, López-Sánchez, & Minguela-Rata, 2014). Kaufmann and Eroglu (1999) agree that excluding franchisees from the process of innovation can damage the overall system and compromise the franchise's ability to function in changing environments.

Another reason why encouraging franchisee innovation may benefit the firm is localization. According to Pardo-del-Val et al. (2014) franchisees possess specific knowledge of the context in which they operate and, as entrepreneurs, aim to maximise their own performance. Both of

these factors push the franchisee towards local adaptation, which in turn involves some levels of innovation. Franchisees are closer to their customers, which makes them better at understanding the unique components of the local market conditions compared to the franchisor (Kaufmann & Eroglu, 1999). Because local markets differ, it can be beneficial to adapt locally to some degree (Kaufmann & Eroglu, 1999). Local market insight gives franchisees the ability to generate ideas, innovate, and experiment, and such behaviour may add value to the whole system.

The discussion on the positive effects of franchisee innovation leads to the second research question of this thesis:

>**Research question 2:** *Why do franchisees pursue innovation?*

2.3.4 Negative Effects of Franchisee Innovation

Franchisee innovation is a controversial issue to the franchisor (Davies et al., 2011). On one hand, the franchisor is trying to protect the brand, while on the other hand the maintenance of system uniformity limits creativity and freedom of franchisees (Duverger, 2012). Morrison and Lashley (2003) state that franchisors adopt control mechanisms that limit the degree of innovativeness, risk-taking, and pro-activeness of franchisees when they consider that such actions by the franchisee may harm the overall franchise system. This could happen when, in the franchisee's self-interest, entrepreneurial activities lead to an individual franchisee departing from the already-established and proven procedures of the franchisor (Baucus et al., 1996). This again could lead to trademark or quality deterioration if the rules imposed by the franchisor are not followed (Baucus et al., 1996).

Duverger (2012) concludes that while innovation is an essential part of the brand's life, in many cases franchise models are successful when the operational system does not allocate much freedom to franchisees. Kaufmann and Eroglu (1999) state that standardization also provides strategic advantages to the franchise system, such as minimized costs, image uniformity, and quality control. However, due to differences in the local markets such advantages may turn into a hidden cost to the franchise system if the franchisees are not granted any freedom to adapt locally (Kaufmann & Eroglu, 1999). This leads to the concept of the paradox of entrepreneurial activity in a franchise.

2.4 The Paradox of Entrepreneurial Activity in a Franchise

Many scholars focus on the potential paradox of control and autonomy that supposedly arises due to the nature of the franchise system. There is controversy on whether entrepreneurial activity is a good thing in a franchise setting or not. The fact that franchises are built on standardization would imply that entrepreneurial activities or innovation should not be promoted in the franchise context. According to Dada and Watson (2013) these activities could even be damaging to the franchise system as mentioned in the previous section.

Franchisors themselves tend to select non-entrepreneurial managers instead of entrepreneurs to run their franchises (Falbe et al., 1998; Morrison & Lashley, 2003) due to the very reason of limiting autonomy. Entrepreneurs want too much control in the franchise context and the franchisor wants to protect their business system from unauthorized change (Falbe et al., 1998). It is also likely that entrepreneurially oriented people do not even want to start franchises. According to Morrison and Lashley (2003), the constraints set out in the franchise agreement may be viewed by the potential franchisee as 'costs' of doing business in such manner (Morrison & Lashley, 2003). Therefore, only a particular profile of person will be comfortable with signing such contract.

However, there has been proof that entrepreneurial orientation and innovation can benefit a franchise system (Dada et al., 2015). This creates a paradox in the franchise setting. On one hand, a franchise should act innovatively in order to remain competitive in the marketplace, but on the other hand, the franchisor limits the entrepreneurial activities of the franchisee, and is not even seeking entrepreneurs as franchisees to run the franchise stores because too much entrepreneurial activity can cause damage to the company as a whole. However, Felstead (1991) argues that there is no such paradox and that instead, a franchise is a "controlled self-employee". This implies that control and autonomy complement each other rather than hinder a good franchisor-franchisee relationship.

2.5   Franchisor Support for Entrepreneurial Activities

According to Falbe et al. (1998), who argues for the importance of franchise innovation in today's competitive business environment, franchisors who are facing increased competition are more prone to encourage innovation of the franchisees. In addition to that, large size of the franchise is related to franchisor exerting support to franchisee innovation as well as recognizing and appreciating franchisee innovations. Kaufmann and Eroglu (1999) propose that, when a franchise system matures, it may become less strict about imposing standardization on franchises since the innovative behaviour of franchisees may help the whole firm stay competitive. This may be one of the reasons why a substantial amount of franchisors rely on franchisee experimentation, which generates innovations that contribute to competitiveness and well-being of the overall organization (Baucus et al., 1996; Hoy & Shane, 1998).

Falbe et al. (1998) identify three managerial ways in which franchisors can encourage entrepreneurial activities in their franchises – the recognition of new ideas at annual meetings intended for the overall franchise system, a franchise council, and the existence of a champion for innovation, the most innovative franchisee, at the franchisor headquarters. In their study, Falbe et al. (1998) examine the importance of these ways based on the franchisee's perspective. The results show that the recognition at annual meetings is considered the most important way to encourage entrepreneurship, closely followed by franchise councils, while the presence of a champion is considered the least important (Falbe et al., 1998).

The paradox described in the previous section and the implication presented above about the role of franchisors supporting innovation in franchises leads to the third research question of this thesis:

Research question 3: *What is the role of the franchisor in the franchisee's innovative pursuits?*

2.6 Overview

Figure 1 Overview of the Theoretical Frame of Reference
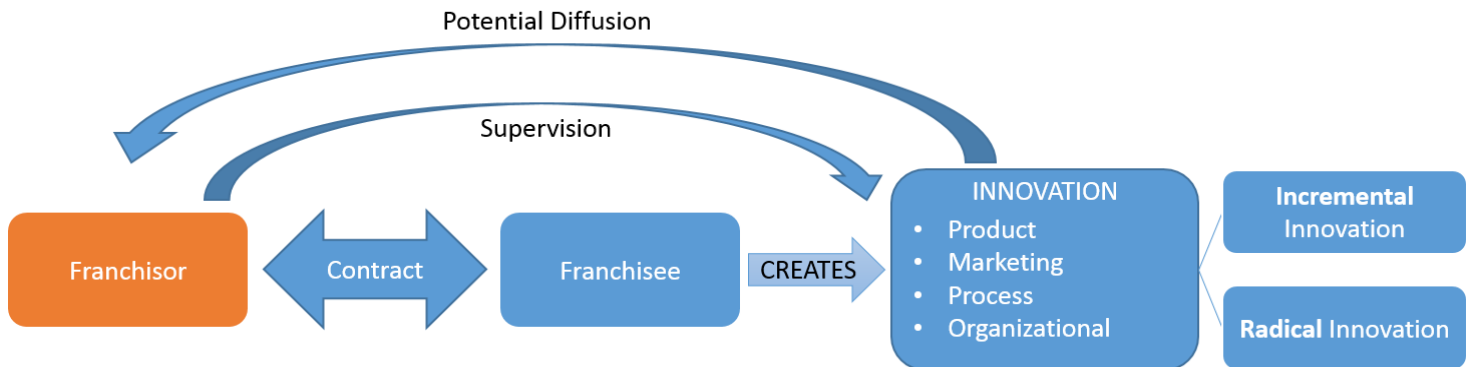
Source: own

In the above model, the relationship between the franchisor and the franchisee is pictured with the two-way arrow, "contract". The contract between the franchisee and the franchisor involves aspects concerning different areas of the business, such as trademark usage, operating procedure, and marketing strategy.

An arrow from the franchisee points to innovation. The franchisee potentially wants to create innovation within their specific franchise store. Innovation can be, as described in the above sections; product, marketing, process, or organizational innovation, and all these innovation types can take two forms: incremental and radical. This can be seen in the above model in the form of the two boxes that are connected to the innovation box.

The innovations pursued by the franchisee can potentially get diffused to the overall franchise organization, which is implied by the "potential diffusion" arrow on the top of the figure that points from innovation to the franchisor. There is an arrow going back from the franchisor to innovation, implying that the franchisor supervises the innovative pursuits of the franchisees and can either encourage or discourage innovation, as has been presented in the theoretical frame of reference above.

3   Method

This chapter of the thesis will discuss the selected research method, including the research approach, philosophy, research design, data collection strategies, and the data analysis approach. The chapter will be concluded with discussion on trustworthiness and ethical considerations.

The following figure presents the overview of the method used for this study:

Figure 2: Overview of method   Source: Own

3.1   Research Approach

The research approach of this study is abductive rather than deductive or inductive. According to Alvesson and Sköldberg (2009), induction and deduction are more one-sided approaches than abduction and, if followed too strictly, can limit the research. The abductive approach involves a case being studied and interpreted through a hypothetical overarching pattern that aims to explain the case (Alvesson & Sköldberg, 2009). Since abduction focuses on underlying patterns, it is a more in-depth approach to research compared to deduction and induction (Alvesson & Sköldberg, 2009). Since the goal of this thesis is to thoroughly understand the position of innovation in the franchise context, abduction is the most appropriate approach.

The abductive research process alternates between existing theoretical concepts and new empirical data, both of which are successively reinterpreted based on each other (Alvesson & Sköldberg, 2009). Research is first started from the study of previous theory to bring understanding on the topic and to discover existing patterns (Alvesson & Sköldberg, 2009). In the case of this study, the research was started by thoroughly studying existing literature on the topic to gain an initial understanding. Through the collection of empirical material from franchisees, these theories were revisited and looked at in the light of the new findings. Afterwards, the theories have again been used as a guideline to identify patterns and to analyze the empirical material.
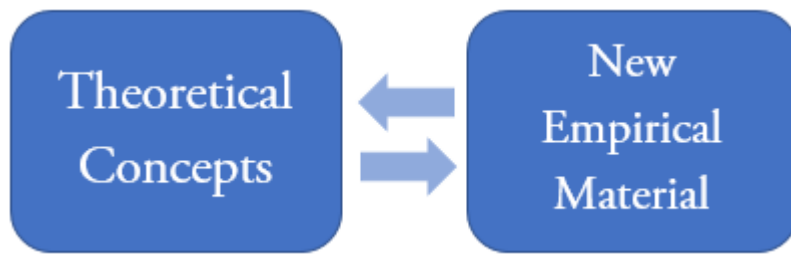
Figure 3: The Abductive Approach   Source: Own

Besides being abductive, the study of this thesis is exploratory, meaning that the research aims to gain familiarity and new insights into the topic (Wilson, 2010). When the area of investigation is new or vague, an exploratory approach is often the most suitable one, since important variables may not be known or well-defined (Cooper & Schindler, 2014). Since there is little previous research conducted on the topic of innovation within franchises, an explorative research approach is appropriate.

An explorative study can be conducted through two different research approaches – quantitative and qualitative. The qualitative approach however is more common in an exploratory study (Cooper & Schindler, 2014), and it is the method that is used to conduct this study. In comparison to quantitative research, the qualitative approach is better if the goal of the research is to study a particular topic in depth, since it aims to understand the context in which actions and decisions take place (Myers, 2013). Since this thesis aims to gain an in-depth understanding on the topic, the qualitative method is more suitable.

3.2   Research Philosophy

Research philosophy is a way through which researchers approach their work (Wilson, 2010). The research philosophy behind this thesis is interpretivism. Researchers assuming an interpretivist approach enter the social world of the issue being examined and interact with the study participants (Wilson, 2010). According to Chamberlain (2006), interpretivism is the most appropriate philosophy when dealing with a subjective social construct. Since this thesis aims to understand innovation strategies of franchises, which is a subjective social construct varying from franchise to franchise, the interpretivist approach is the most suitable.

The research philosophy of this study also supports the chosen approach of this study. According to Chamberlain (2006), interpretivism does not work well with deduction or induction. Chamberlain (2006) states that the deductive method of starting with concepts and imposing external theory on a subjective social issue can lead to biased data. This is because there is a potential conflict between the realities of the researcher and the research subject. The inductive method of starting the research without concepts and instead first gathering raw data again leads to data that is uncomparable to any other data due to the research subjects lacking common conceptions of the construct (Chamberlain, 2006).

To avoid falling into these two opposite ends, the interpretivist philosophy should be combined with the abductive method (Chamberlain, 2006). This would allow the application of the researcher's knowledge on the topic of the research to the research subject's knowledge without

introducing bias and while producing a concise research (Chamberlain, 2006). Therefore, the abductive method and the interpretivist research philosophy are supportive of each other and are the method of conducting this research.

Interpretivism also supports the choice of the qualitative approach. Denzin and Lincoln (2011) state that qualitative research is a set of complex interpretive practices through which researchers are trying to understand phenomena based on the meanings people tell them. Since interpretivist researchers enter the social world to interact with the study participants, this supports the choice of a qualitative approach.

3.3   Research Design

A case study method is used to conduct the research of this thesis. Case studies are often suitable for qualitative research because aspects of the case study design favor qualitative methods (Bryman & Bell, 2011). According to Yin (2009), the more a study aims to explain a circumstance extensively, the more appropriate a case study method is. Since this thesis aims to develop a comprehensive understanding of innovation in franchises, the case study method is suitable. A multiple case study method was selected in order to gain more insights on the topic in different franchise systems. Eriksson and Kovalainen (2008) state that the more case studies are included in a study, the more the findings on the topic can be generalized. This thesis aims to develop concise findings on the topic, and therefore a multiple case study is the most appropriate design.

A case study can be conducted by collecting information through various methods, for example through interviews and observations, or by collecting data from existing documentations (Yin, 2009). In the case of this thesis, interviews are used to collect data, and a semi-structured interview method in specific is applied. Interviewing was chosen for this research because, as explained by Eriksson and Kovalainen (2008), interviews are an efficient and a practical way of information collection and allow the researchers to obtain information that cannot be found in a published format.

The semi-structured interviewing method was selected because, in order to analyze concise, on-topic responses from each of the interviewees, according to Eriksson and Kovalainen (2008), more structured interviews are better. The semi-structured interviewing method is fairly systematic and comprehensive due to its structure, but at the same time allows the researcher to seek more in-depth responses with additional questions that may not initially be included in the outline (Eriksson & Kovalainen, 2008). Since this thesis is exploratory, and all the variables were not known in the beginning of the study, a semi-structured interview method was selected because it would allow the authors to explore topics that arose during the interviews with additional questions that had not been initially included.

3.4   Literature Review

Literature on the topic of this thesis was collected in the beginning of the study to gain a better understanding of the topic. Material was collected from textbooks, scientific journal articles, and different internet sources. Textbook information was mostly used to gain an initial
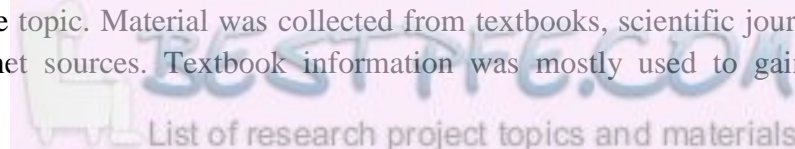
understanding of aspects related to this study before moving to journal articles for a more comprehensive understanding. Textbook information was however also used to a great extent in order to achieve an understanding on the different research methods. While textbooks can help to gain an overview of a topic, they provide very superficial information and therefore were not used extensively in this study.

Instead, journal articles form the basis of the theoretical concepts used in this study. These journal articles were accessed either through the university library database or through online search engines, such as Google Scholar and Scopus. Keywords such as 'franchise innovation' and 'restaurant franchise innovation' were used to search for articles. The articles selected for this study were chosen based on their quality and relevance to the topic. A great amount of the articles are from peer reviewed journals, and the authors aimed to include only highly cited articles, or articles by known franchise researchers, in this study. However, the most important criteria in the selection of articles was that the articles are relevant to the topic. The amount of articles on innovation in franchises is very small, and therefore not many articles were found on the exact topic. Therefore, the articles with the greatest relevance to the study were chosen.

Online sources were also used as a source of information. Websites of different franchise organizations in Sweden were initially used to gain more knowledge about the franchise environment in Sweden, and to obtain statistical information on the current situation of franchises in the country. Similar websites were used to find different franchise chains and to identify potential informants for this study. Company websites of the franchise chains were also used to gain information on the different franchise companies themselves.

3.5   Case Selection

According to Bryman and Bell (2011), case studies are often associated with a geographical location and they focus on a concrete situation or system. In the case of this thesis, a specific geographic location was selected in Sweden and the focus system is the franchise system and restaurant franchises in specific. Franchisees were selected as the respondents for this study since, as the owners of the specific franchise stores, they are likely to have the most information about the potential innovations within the franchise, and they can also provide information on the franchise system as a whole.

The process of selecting the franchisees to be interviewed started by identifying the appropriate franchises within the chosen geographic location. The criteria for the selection of these franchises were that (a) the franchise chains are Swedish and are located in Sweden, (b) the franchises operate within the restaurant industry, and (c) the franchises are easily approachable for the authors of the thesis in terms of location. On top of this, it was decided that only one franchisee per franchise chain was to be interviewed. This was because due to the time limitations of this study, only a few franchisees could be interviewed, and in order to get the most comprehensive overview of the whole restaurant franchise industry, it was preferable to gain information from as many different franchise chains as possible.

After identifying the appropriate franchises and franchisees for this study, the franchisees were

contacted through a phone call or in person, inquiring whether or not they would be interested in participating in the study. Fifteen franchisees were approached and five of them agreed to participate in the study. The main reasons why ten franchisees declined to participate were their busy schedules and reluctance to disclose valuable information about their business.

3.6   Data Collection

For the purpose of this thesis, primary data collection was performed by conducting interviews to selected franchisees. The interviews were conducted face-to-face, since face-to-face interaction provides the opportunity to engage in verbal and nonverbal communication and allows the interviewers to have greater flexibility in delivering the questions (Wilson, 2010). Two of the authors of the thesis were present at each interviewing session and the whole interviews were digitally recorded. From the recordings, the interviews were later transcribed word-to-word into text on the computer.

Since the interviews were conducted in a semi-structured manner, at times the primary questions that were predetermined were followed by other secondary questions to explore the topic of discussion more in depth and to get more concise answers. The questions were mostly asked in a neutral way, avoiding pre-assumptions. According to Holstein and Gubrium (2004, cited in Eriksson & Kovalainen, 2008), the best research results are achieved by combining 'what' and 'how' questions. Therefore, both of these question types were included. The questions were also mostly open-ended. Open-ended questions are typical to qualitative research, encouraging more speech and producing more detailed answers (Eriksson & Kovalainen, 2008). At times, closed ('yes/no') questions were also asked, but they were mostly followed by open-ended questions as secondary questions to give the interviewee more opportunity to elaborate on their answer.

3.6.1   Interview Questions

The interviews conducted for this thesis were structured in three sections that cover the main themes behind the topic of the thesis. The first questions included the general background of the interviewee, the second section concentrated on innovation in the franchise context, and the third question section involved the franchise system itself, including franchisee-franchisor relationship and adoption of innovation within the franchise chain.

Questions on the background of the franchisees, such as "Have you been self-employed before?" were asked to gain a better understanding on the franchisees. This is because the qualities of a franchisee and their background can affect whether or not they pursue innovation in the franchise (Stanworth & Curran, 1999). The section also includes questions on the franchisees' perception of themselves and their innovativeness, such as "Do you consider yourself an entrepreneur?" The purpose of these interview questions is to help answer the second research question of this thesis.

The second set of questions concentrated on the topic of innovation in franchises. Questions such as "Do you innovate within your franchise? Why, why not?" were asked. If the franchisees innovated, their innovative ideas were explored further by asking them to elaborate on their innovative projects. Schumpeter (OECD, 2005) describes four different types of innovation in

firms, and these interview questions were designed to get responses from the franchisees that could perhaps reflect the existing innovation theory. With the questions of this section, the goal was to find out whether the interviewed franchisees innovate in their franchises, what kind of innovation they practice and why, therefore aiming to answer the first and second research questions of this thesis.

The third set of questions was on the franchise system. Questions such as "In your franchise system, which areas of the business are highly standardized and which ones are more flexible?" and "Is there a particular procedure behind implementing an innovative idea?" were asked. These questions were asked in the light of the paradox of innovation in franchises. The questions aimed to understand the extent of standardization in the different franchise systems, how much the franchisees could innovate within the system, and to what extent were franchisee innovations implemented throughout the chain. These interview questions were asked with the purpose of answering the third research question of the thesis.

The above are examples of the questions that were asked during the interviews for this thesis. The full list of interview questions can be found in Appendix 1.

3.7   Data Analysis Approach

Glaser (1992, cited in Wilson, 2010) defines qualitative analysis as any kind of analysis that generates findings or concepts and hypotheses that are not obtained using statistical methods. Wilson (2010) states that there is no definitive approach to carrying out qualitative data analysis, but he proposes a four-step procedure. The process starts with transcribing the collected data, followed by reading and generating categories, themes, and patterns. The third step is interpreting the findings and the last step is reporting the findings.

According to Wilson (2010), it is important to transcribe verbatim answers from the interviewees so that the answers will not lose their meaning. All the data collected for the purpose of this thesis was digitally transcribed word-to-word using Microsoft Word. After the data was transcribed, the authors read through in order to familiarize themselves even more with the information. The authors tried to find patterns in the responses that either supported or contradicted one another. These patterns, along with researched theoretical concepts described in the theoretical frame of references, were later used for the analysis of the findings. According to Wilson (2010), a major part of analysis is to establish connections between different cases. Wilson (2010) emphasizes that researchers not only need to identify connections between the cases, but also the importance of those relationships, consistency with previous research, and reasons for differences and similarities. Covering these aspects will be the actual process of data analysis in this thesis.

3.8   Research Trustworthiness

According to Eriksson and Kovalainen (2008), the quality, or trustworthiness, of research can be evaluated through two classical concepts: validity and reliability.

3.8.1 Validity

Validity means the extent to which the conclusions of a study present an accurate description of the topic (Eriksson & Kovalainen, 2008). For a finding to be valid, it must be true and certain, meaning that findings must be accurate and backed by evidence. Threats to the validity of a study can appear in several different forms, for example through interviewees systematically answering a question differently from how the researcher intended (Eriksson & Kovalainen, 2008).

Although semi-structured interviews are systematic to an extent, since the participants of the study may have varying interpretations of the same question and respond to the question according to their interpretation, inconsistencies may arise in the data (Eriksson & Kovalainen, 2008). This is especially important to note since the interviews of this study were conducted in English to non-native English speakers. Therefore, the inconsistencies in the interpretation of each question may be even greater due to a language barrier. The language barrier may also have affected the answers of the interviewees, as it can be difficult to transfer meaning from one language to another and to express yourself in a foreign language. Nevertheless, the semi-structured interview method used in this thesis allowed the researchers to elaborate on the questions to help the interviewees understand the meaning behind them, as well as ask additional questions if the question was not initially answered adequately enough or in the preferred manner.

By ensuring that the answers of the interviewees were as true, accurate, and concise as possible across all interviews, the space to draw invalid conclusions from the answers has been reduced, and therefore the validity of this research has been ensured.

3.8.2 Reliability

Reliability refers to the degree of consistency in the research, the extent to which a procedure yields the same result when repeated, and whether another researcher can replicate the study and come up with similar conclusions (Eriksson & Kovalainen, 2008). According to Robson (2002, cited in Saunders, Lewis & Thornhill, 2009), threats to reliability can emerge both from the observer's and the study participant's side, in the form of error and bias.

The observer error may refer, for example, to the use of different interviewers asking questions differently and therefore encouraging different answers from the study participants (Saunders et al., 2009). The observer error in this thesis has been reduced by always using the same interviewers in each of the interviews. The observers may also interpret the participants' responses differently, leading to bias (Saunders et al., 2009). To reduce the different interpretations of the responses, the interviews of this study were digitally recorded to capture all the details. The recordings were also transcribed afterwards and discussed among the authors in order to ensure concise interpretations of the responses, and to avoid twisting the words of the respondents. This minimizes the likelihood of misinterpretation and provides more reliable results.

The participant error may mean that the interviewees are answering the interview questions differently for example based on their mood or what they think the company wants them to say (Saunders et al., 2009). According to Saunders et al. (2009), anonymity is one way of reducing participant error and ensuring more honest answers from the interviewees. Therefore, all the respondents of this study were granted anonymity if they so wished. Another way of reducing participant error is to interview several people within the same business (Saunders et al., 2009), or in this case, within the same franchise chain. However, as mentioned previously, the authors of this wanted to gain as broad of an overview of the different franchises in the industry, and therefore only one franchisee per chain was interviewed. This was a conscious decision to get more varying results. However, it also reduces the reliability of this thesis.

Reliability is closely related to replicability (Bryman & Bell, 2011). For a study to be replicable, the researcher must explain their research procedures in a great detail (Bryman & Bell, 2011). Replicability can be achieved if the researcher explains the procedures for "selecting respondents, designing measures of concepts, administration of research instruments (such as structured interview . . .), and the analysis of data" (Bryman & Bell, 2011, p. 56). The replicability of this study has been ensured by the thorough explanations of the above aspects in the previous parts of the thesis.

3.9   Ethical Considerations

Ethical matters are important to consider when conducting research (Eriksson & Kovalainen, 2008). There are several ethical issues that a researcher should consider regarding their study, such as: voluntary participation, informed consent, anonymity, privacy, and confidentiality, professional integrity, silencing, and plagiarism (Eriksson & Kovalainen, 2008).

According to Eriksson and Kovalainen (2008) people should only participate in a research voluntarily, with the knowledge that they can withdraw from the study at any time. In the case of this thesis, the potential respondents were approached by explaining them the purpose of the study, including their role in it, and asking whether they wanted to participate in the study or not. They were given the opportunity to refuse immediately, or to withdraw their participation in the study at any time. By explaining the potential respondents about the study, the second ethical consideration – informed consent – was also fulfilled. Informed consent means that information of the study should be available to the participants so that they can make an informed decision on whether or not to participate in the study (Eriksson & Kovalainen, 2008).

According to Eriksson and Kovalainen (2008), research should not bring any harm to the study participants and the anonymity of the research participants should be the first priority. As previously mentioned, the participants of this study were granted anonymity: their names, business locations, and in some cases also the business names are not revealed in this thesis. This is because, at times, they are giving vulnerable information regarding their business practices and releasing this information publicly may even harm their position or their business. Eriksson and Kovalainen (2008) state that businesses and individuals may not be willing to answer ques-

tions for a study if confidentiality is not ensured. Therefore, the identities and personal information of the study participants, as well as their answers, are kept confidential. They are only for the authors to know and are not revealed to outside parties. Since the answers were digitally recorded during the interviews, the recordings were also deleted after the study had been completed.

Besides ensuring the fair and respectful treatment of the study participants, the researchers should also ensure that they are behaving accordingly in other aspects of the research, following professional integrity, and not resorting to silencing or plagiarism (Eriksson & Kovalainen, 2008). The general rules regarding professional integrity, silencing, and plagiarism have been followed in this thesis by making the process of the study transparent and available for scrutiny and inspection, giving credit to other researchers where credit is due, and by referencing appropriately.

4   Empirical Findings

This chapter of the thesis will summarize and present the conducted interviews for the case of each franchise. The cases are divided into three different sections in accordance with the topics explored during the interview: background, innovation, and franchise system. The interviewees asked to remain anonymous and therefore will be given fabricated names. In addition to that, the locations of the franchises will not be disclosed. However, the names of the companies were permitted to be used in the thesis in some cases.

4.1   O'Learys – Paul

O'Learys is a well-established Swedish franchise restaurant chain that was founded in 1988. It is Sweden's most expansive restaurant chain that can be found in several countries and in more than 100 locations. The business concept is based on that of American sport bars, which is why their service mainly focuses on providing food and beverages in a sport-embracing environment (O'Learys, 2015).

Background

Paul is a former franchisee who owned three franchises within O'Learys. He became a franchisee of O'Learys in 1996 and the chain was the only franchise he operated in. Before becoming a franchisee of O'Learys, he was self-employed in the restaurant industry in the U.S. As a former franchisee, Paul considers himself an entrepreneur, and generally thinks of himself as an innovative person. He said that he "*never really bought the restaurant*" – he "*built the restaurant*" since he had to start from scratch.

Innovation

Paul said that he generally tried to innovate within his franchises. His motivation behind innovating was primarily profit-maximization but it also concerned satisfying customers' needs. He noticed that the standardized business structure of O'Learys could not satisfy all of his customers' needs, which is why he tried to adjust the business model to "*satisfy the local needs*". Such adjustments, for instance, concerned offering additional dishes, which could not be found on the menu, to large groups on special occasions. When he asked the headquarters for the permission for such changes, he argued that it is important to make the customer happy, which in return would increase the franchisor's profits. He stressed that "*you have to offer something to you customers*" to "*make them come back by fulfilling your promises*".

When asked to give examples of innovative ideas and changes implemented when Paul was still a franchisee of three O'Learys' restaurants, he provided the following information:

- Instead of only having the standardized menu, Paul came up with the idea of introducing a Sunday deal that "*consisted of an ordinary dish but sold at a good price . . . with different dishes and toppings*". The dishes offered each Sunday varied to make it more exciting for the customers. Furthermore, in one of Paul's franchises, he changed the

menu three times a year – he would still have the standardized dishes on his menu but also added some of his own creations.

- Paul changed the layout of his restaurants, for instance the setting of the tables or the color of the walls, every six months. Even though most of the layout components are set by the franchisor, for example, sports pictures on the wall and a certain tablecloth, Paul tried to be as innovative as possible when it came to changing the flexible features.

- Paul decided to be open every day of the week regardless of public holidays. He primarily did so to maximize profits but also to satisfy the local customers who could now rely on O'Learys being open all the time. He said that they might even be "*the only O'Learys in Sweden that is open every day until this time [2 AM]*".

- As a franchisee in O'Learys, one is responsible for the local marketing strategy. According to Paul, the franchisee has to decide on the media channels, in his case mainly advertisements through the radio, newspaper, or television. Paul said that the current franchisee of O'Learys also issues discount coupons as a promotion method.

According to Paul, a few other O'Learys franchises are innovative as well:

- One of the franchises decided to turn the restaurant into a nightclub on certain days of the week after 10PM and the idea got disseminated in the franchise system and adopted by some of the franchises, including Paul.

- Another franchise offered a bowling alley and a go-kart room in their restaurants. Paul mentioned that the introduction of bowling alleys turned out to be very profitable – "*Before they probably got two million a month but now with bowling six million, so they grew four million SEK a month because of that*". Now there are various franchises in the chain who offer the same services because the franchisor is encouraging them to do so, when possible, since the idea turned out to be profitable.

Franchise System

According to Paul, the menu and the beverages offered in O'Learys restaurants are standardized with the option to add a limited amount of beverages and dishes to the menu. More flexible components of the chain concern the layout of the restaurant, the music played in the background, and the offering during special events.

Since Paul started working for O'Learys almost 20 years ago, he compared the status quo of the chain with the business environment back when he started. He stated that "*In the early phase of O'Learys, it was easier to implement changes*". When there were only six franchises, they could pressure the franchisor more into implementing proposed changes. Their premise, when arguing for changes, was that they are a small chain and that they need to do everything they can to stay competitive. Today, with around 100 franchises, innovation is more difficult,

according to Paul. Because of the high amount of franchises, the franchisor cannot receive all the proposed ideas. That is why, depending on the region the franchise operates in, the franchisee can contact a certain franchisee who is responsible for this region, and this franchisee representitve will then forward the ideas to the franchisor.

Overall, Paul seemed to feel limited in his freedom as a franchisee. According to him, the more O'Learys restaurants opened, the less freedom he had when it came to implementing new ideas. He felt particularly frustrated when he came up with new ideas but it took a long time for the franchisor to respond.

4.2   Harrys – Jon

Harrys is a Swedish *food pub*, a combination of a restaurant and a pub, that offers Swedish cuisine. The pub was founded in 1993 and exists at 46 locations in Sweden (Harrys, 2015), out of which 10 Harrys are franchised and the rest are fully owned, according to Jon.

Background

Jon has been a franchisee of Harrys for 12 years. He operates it with his partner. Their franchise is the biggest food pub in the whole chain. Both Jon and his partner bought shares of the company and have more power compared to other franchisees in the chain. Jon has worked in the restaurant industry for 30 years, and was self-employed in the same industry before joining Harrys. Jon considers himself an entrepreneur and stated that he has a "*desire to do things*". He also sees himself as an innovative person.

Innovation

Jon innovates within his franchise. The main reason behind his innovativeness comes from his need for self-actualization. He said that "*When you are an entrepreneur like me, . . . we can't sit still and we need more things to build and invest [in]*". Another reason for innovation, though less significant according to Jon, is the need to attract more customers to their restaurant.

Jon provided the following examples of innovative projects that he has implemented:

- Jon told that, with his partner, he has developed two nightclub concepts under Harrys. He said: "*In 2008, we were building a new concept for Harrys – Sliver – a new nightclub. It was the only one in Sweden and the first one in [name of the city], and today we have six more cities with Sliver. In 2009, we built Red – a new nightclub concept for 40+. The same concept is building in many cities in Sweden today.*" Jon stated that they developed everything for these two nightclub concepts, including the branding and the overall design of the clubs.

- Jon said that marketing is not specified by the franchisor but is left to the franchisees. He uses social media for marketing, including Twitter, Instagram, and Facebook.

- Jon works with with companies and offers them to rent his venue or caters to these companies. He is also a major sponsors of an ice hockey team and gets access to the network of companies who support this particular team. This is how he gets different companies to use his restaurant.

Franchise System

According to Jon, the dishes and beverages offered at Harrys are standardized and each of the franchisees uses the same supplier. Furthermore, the furniture used is the same in every Harrys. Marketing elements and additional services, however, are more flexible. That is why in his franchise, Jon is "*working with sports a little bit, and we are a dance place*". Jon streams major sports events on TV screens and one big screen, and he has also added a nightclub to his franchise. According to Jon, the franchisor organizes semi-annual meetings with all franchisees. During these meetings, the franchisor discusses new standardized components and ensures the quality across all restaurants, but also allows the franchisees to make proposals for improvements.

When asked if he feels limited in his actions by the rules imposed by the franchisor, Jon responded that he feels limited only to a small degree since he "*can do a lot of things in Harrys*". According to Jon, the chain is less strict with franchise innovation than other franchise restaurant chains. However, he added that in the future, with an increasing amount of franchises, the freedom to innovate within the franchise is likely to decrease. When asked about whether he first contacts the main office in Gothenburg if he has an innovative idea, he said: "*Today I do [contact the main office] but a few years ago I didn't*". Jon, however, stated that the headquarters of Harrys encourage innovation. The nightclub concepts have been very successful in the chain and today, the franchisor encourages the other franchisees to establish nightclubs in their restaurants.

4.3   Coffeehouse A – Kai

The interviewee requested to have the chain anonymous.

Background

Kai owns two Coffeehouse A franchises, out of which he only acquired the second one recently. He became a Coffeehouse A franchisee eight years ago after he had worked as a regular employee in the same chain for one year. When Kai became a Coffeehouse A franchisee, it was his first self-employment. Today, however, he is involved in numerous businesses and runs them successfully.

Kai became a franchisee because he was personally approached by the franchisor and wanted to improve the overall quality of the coffeehouse chain. He is a unique Coffeehouse A franchisee, since he managed to have the franchisee contract issued in his name instead of
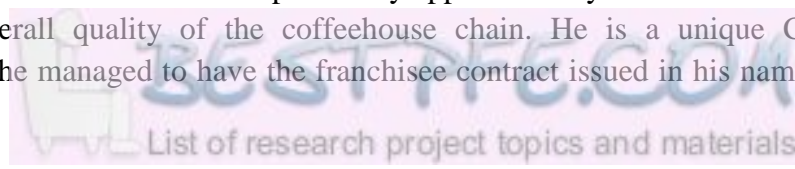
the franchisor's. This in return allowed him to have a high degree of freedom in his local coffeehouse. That is why he, as a franchisee, considers himself an entrepreneur – *"just because you are a franchisee does not mean that you don't have ideas."* Additionally to being an entrepreneur, Kai also considers himself as an innovative person – both as a professional and as a private person.

Innovation

Kai innovates within his franchise to a large extent. Since he was given special conditions in his contract, he makes significantly more changes within his coffeehouse than any other Coffeehouse A franchisee. Kai's reasoning behind innovating is to attract more customers and, more importantly, to satisfy them so that they return to his coffeehouse. When he started as a franchisee, he felt that he needed to be innovative and make changes in the chain to make it more attractive for customers to go there. The result is that, today, his coffeehouse looks different from the typical Coffeehouse A franchise. Kai said that the customers like his changes and that overall, he managed to create a good reputation for Coffeehouse A in his city. According to Kai, his coffeehouse is more profitable than other Coffeehouse A franchises in major cities: *"My place is better that many Coffeehouses A in bigger cities in terms of economy and sales"*.

The examples of innovation mentioned by Kai are the following:

- Even though, in most other Coffeehouse A franchises, a standardized menu is offered, in Kai's coffeehouse all the dishes on the menu are based on his own recipes. He constantly looks for new and better recipes to put on his menu. He does so to make sure that the customers are satisfied with the dishes. He also added that he wants to sell good quality products at a reasonable price.

- Instead of using the franchisor's furniture and design for the coffeehouse, Kai has created his own design and chosen different furniture. *"Every furniture here, the whole design, is by me. It is not from the chain."* Both his food offerings and his coffeehouse design are therefore unique.

- Kai said that, as a franchisee of Coffeehouse A, one is responsible for the local marketing strategy, and he decides which marketing channels to use. He, like many other franchisees in the chain, mainly works with social media. He also works with local junior and adult sport clubs, and promotes his cafe during sport events. However, he does not want to spend much resources on marketing for the following reasons:*" I try not to market too much because of economic reasons. This place has great location and everybody sees it so if people want to come or not, it is their decision but, one day they will come"*.

Franchise System

Coffeehouse A is mainly standardized, according to Kai. In the majority of the franchises, the drinks and the meals offered and most of the coffeehouse design components used, such as furniture and decorations, are all proposed by the franchisor and the franchisees cannot alter them. The marketing strategy seems to be the only component that can be developed, and needs to be developed, by the local franchisee. Kai stated that the reason why he can be more innovative in his franchise is that he was asked to become a franchisee when Coffeehouse A did not perform well, when the concept was not as advanced, and when the franchisor was desperately looking for someone to open a first Coffeehouse A in a certain city. Kai's other franchise is also issued on his name since, according to Kai, he had the bargaining power to have the contract issued on his name due to local conditions and his experience.

In general, the headquarters consider the ideas proposed by the franchisees and they also respond quickly, but Kai stated that such responses are "*mostly not positive because of the chain's rules*". In the headquarters, there is a woman responsible for monitoring whether the franchisees follow the concept and supervising all the innovative proposals. Kai says that whenever he proposes changes, he feels that the woman lacks the ability to see the need for such changes. That is why, most of the times, his proposals get rejected. However, in the end, he implements the changes anyway and the headquarters are actually satisfied with his changes.

For other franchisees, it is more difficult though. Since their contracts are only rented out to them by the franchisor, the franchisor can easily take away their contract and give it to someone else. That is why the other franchisees are more likely to follow the concept proposed by the franchisor completely, according to Kai. Even though they would technically want to innovate more, they cannot simply implement an innovative idea that was rejected by the headquarters. The franchisor annually invites all of the franchisees to the headquarters. Kai said that even though these meetings seem to take place also for knowledge exchange and recommendations from the franchisees, the franchisor actually uses them to make sure that the franchisees follow their concept. Furthermore, according to Kai, the main office also makes regular visits to the different franchises for a compliance check.

Kai's case is unique when it comes to franchisee freedom. However, Kai stated that the reality for the other Coffeehouse A franchisees a highly standardized concept that they need to follow, with very little freedom for new ideas. For example, even though other franchises would like to adopt some of Kai's dishes that proved to be profitable, the franchisor does not allow them to. When asked how the franchisor comes up with new ideas, Kai said that the headquarters does not listen to the franchisees but that instead, it copies from their competitors. At the example of food offered in the chain, Kai stated that "*The main office doesn't understand how to create a good menu*" because they "*copy from a competitor with very different overall structures*". According to Kai, the franchisor should trust the franchisees more and implement some of their proposals in the overall chain.

4.4   Coffeehouse B – Eva

The interviewee requested to have the chain anonymous.

Background

Eva has been a franchisee of Coffeehouse B for almost two years. Before becoming a franchisee, she ran a restaurant that is located close to Coffeehouse B. At the moment, Eva runs both the restaurant and the cafe simultaneously. Eva's friend was the previous owner of the cafe and he suggested her to buy it out from him. Eva agreed to become a franchisee because *"I am an entrepreneur and I can get more profit and I am experienced in this business [restaurant industry]"*. She sees herself as an innovative person and said that *"If you do business, you should be innovative. Otherwise your business would just be stuck in the middle and won't grow anymore"*.

Innovation

Eva claimed that, for the most part, she follows the rules and proposals from the headquarters located in Stockholm. However, she added: *"Sometimes you don't like something that they [concept supervisors from the headquarters] bring to you and you want to change it. And if it doesn't affect your business that much, you can change something"*. Eva is taking little steps when it comes to innovating within her cafe because, from her words, she is still rather new in the chain. In addition to that, she believes that the ways in which her friend, who owned the cafe before, managed things, are effective. Nevertheless, she does come up with new solutions and changes.

Examples of innovation that Eva pursues:

- The franchisor provides all of the cafes with a particular type of menu. However, the franchisees can choose whether to use the ingredients for the dishes that have been proposed by franchisor or to come up with their own ingredients. As Eva put it, *"If the headquarters say you serve sandwiches, you serve them, but it doesn't matter what they are made of, so if you run out of ham, you can make sandwiches with cheese and say that they are vegetarian ones"*. Also, she is able to come up with her own types of a particular dish. For instance, when the franchisor says that there have to be cakes offered at the cafe, she may propose her own recipe. However, the recipe has to be approved by the franchisor. Eva has not yet tried to create and propose her own recipes. She has only experimented with the ingredients.

- Eva tries to make the menu a bit more diverse because she does not want people to get tired of the same food being served all the time. *"We may change the type of bread in sandwiches from time to time, just to make it more exciting for our customers"*. She said that while this is not a big change, it results in small differences between her cafe and other cafes in the chain.

- Eva tries to utilise her existing resources from the restaurant that she owns in the cafe business. For instance, she uses sauce prepared at the restaurant for some of the dishes at the cafe.

- Eva is the one responsible for marketing. Like other franchisees in the chain, she uses social media, for promotion. Additionally, Eva issues discount coupons that are distributed during major events at schools and universities in the city. By doing so, she wants to attract more young people to her cafe. These are the only marketing efforts that Eva does, since she does not see a need to do more marketing due to the cafe having a central location – it is in the city centre – therefore, people are always aware of it.

Franchise System

As it was mentioned above, the food menus are alterable in the Coffeehouse B franchise system. When it comes to other flexible components in the chain, Eva mentioned that *"The layout of each cafe is unique and usually the franchisee is responsible for picking the design and furniture"*. Even though the menu can be altered, the drinks offered are standardized. Eva stressed that *"The coffee is the best thing we serve, and this is what we have exactly the same in all franchises because we order coffee beans from the same company"*. Soft drinks are also standardized and come in special bottles that have the logo of the franchise on it. Also, the mugs and plates are the same throughout the chain, and feature the company's logo.

As stated above, the main office of the chain is in Stockholm, and Eva said that if she has any questions, she always calls the office. At times, the main office also calls her if there is some new information or practices that need to be applied throughout the chain. In addition to that, a special team of employees from the main office visit each franchise twice per year to ensure that the format of the franchise is followed, as well as to introduce new practices in the cafes.

As stated before, the chain has a department that does quality checks to the franchises. Besides this, the franchisor also hosts regular meetings two times per year with all the franchisees where they discuss customer demands and changes that occur on the local level. However, Eva stated that *"It is mostly top-down communication. I do not feel that I am that able to contribute my ideas. I can propose things but it will still be the main office who will test them and, if successful, distribute throughout the chain"*.

4.5   Naked Juicebar – Lisa and Oscar

Naked Juicebar is a *Grab & Go* concept that offers fresh juices, smoothies, healthy lunches, and natural snacks in shopping centres, travel terminals, and pedestrian streets in large parts of the country. The company was founded in 2007 and, as of 2015, has 22 stores around Sweden (Naked Juicebar, 2015).

Background

Lisa has been a franchisee for five years and currently owns two Naked Juicebar stores. She and Oscar were in a partnership before and owned the stores together. However, Oscar is now working at the corporate headquarters, and the information provided by him was both from a franchisee's and franchisor's perspective. They both consider themselves entrepreneurs – *"the goal was to come into an existing concept but as an independent operator, so absolutely [we are entrepreneurs]"*. When asked whether Lisa and Oscar were innovative people, Lisa replied that she is more of an implementer rather than the idea person, while Oscar has more originality. However, Oscar claimed that they both are able to spot new opportunities that can benefit the chain.

Innovation

Innovation does happen in Naked Juicebar's stores. According to Oscar, opportunities always present themselves, and must be pursued when you want to improve or do things that may benefit the chain. Oscar said that, "*In the case of Naked Juicebar, the chain covers the entire country, so there are local opportunities throughout and, because of the type and nature of the business . . . –* a *service business that delivers products and services directly to consumers – opportunities show themselves in a local way*". The main idea is that innovations do happen locally.

When asked to give examples of innovative ideas and changes implemented in their outlets, Lisa and Oscar provided the following information:

- Lisa works closely with universities since the students' presence is prominent in the local community where her stores operate. Lisa participates at university fairs to promote Naked Juicebar's products to students by giving out free juices to the students. According to Oscar, they do this in order to reach new demographic groups. It is something that is not defined or prescribed within their franchise concept, and in Oscar's words "*it is an innovation because you see a unique opportunity [to attract more customers] and you take advantage of it*".

- Local Naked Juicebar stores are in a position to come up with new ideas, since they are able to test the products that they sell by receiving customer feedback. As Oscar put it, "*if you hear enough from customers about something that might be interesting, certainly you might try it, and if you decide that it works within the framework of the business, then you propose it to the franchisor*". The franchisees are able to create new recipes for juices, since the company does not have a centralized kitchen responsible for the development of new drinks. However, the new recipes proposed by franchisees need to be approved by the franchisor before implementation and, if they are approved, the recipe will be offered at every Naked Juicebar franchise.

Franchise System

Naked Juicebar's menus are standardized because the company wants customers to come to any location and get the same services and products. However, the price structure is different and is determined by the local market. And according to Oscar, "*the franchisee is given an opportunity [to set up prices] certainly depending on their marketplace*". Nevertheless, everything has to be approved by the main office; pricing is put up for revaluation every year.

It appears that the franchisees of Naked Juicebar do not have the ability to deviate from the standards imposed by the headquarters. However, Lisa stated that she does not feel limited in her actions – she likes the rules and does not feel restrained by them. This might be due to the fact that, in Naked Juicebar, there is a franchise advisory board, which consists of three franchisees that meet together every quarter, collect feedback and ideas from the different stores, and bring it to the franchisor. The feedback and ideas are discussed, and the most feasible ideas are then tested in stores for a particular amount of time. If successful, the new ideas and changes are then implemented throughout the whole chain. Oscar said that Naked Juicebar emphasizes two-way communication between the franchisor and the franchisee. In his and Lisa's opinion, the company has a corporate culture that promotes openness, understanding, and trust. Oscar and Lisa stressed that managers, both at local and country level, are willing to listen to new ideas proposed by employees, suppliers, and customers. In addition to that, franchisees sitting at the franchise advisory board rotate every two years, so that all franchisees get the opportunity to sit on the board and affect the company.

Naked Juicebar is a relatively young company – it is eight years old. When Lisa and Oscar were asked whether a young company has more room for innovation compared to a more well-established one, the response was "*no*". According to them, if the franchisor does not control in the early stages, chaos from too much openness to innovations will break loose. Oscar said that "*right now it is probably the perfect time for Naked Juicebar [to be more encouraging of franchisee's innovations]. It's been around long enough, we've seen a lot of things, and were able to listen and hear the ideas; and now we can also filter them a lot better*". Oscar said that in the beginning there was so much information that was transmitted to the headquarters that they did not manage to handle and filter it all. In his words, this served as the main reason behind strict initial control of franchisees in Naked Juicebar.

5   Analysis

In this chapter of the thesis, the empirical findings are analyzed using the theories presented in the theoretical frame of references.

5.1   Innovation

It was discovered that all of the franchisees interviewed for this study pursue innovative projects in their franchises. The types of innovation identified were product and marketing innovation. None of the franchisees interviewed engaged in process or organizational innovation.

5.1.1   Types of Innovation

The four types of innovation proposed by Schumpeter and defined in the Oslo Manual (OECD, 2005) are product, process, marketing, and organizational innovation. According to Schumpeter (OECD, 2005), for a change to be considered an innovation, it be has to be either completely new or significantly improved in the firm level, which in the case of this thesis means that it has to be new or significantly improved to the whole franchise chain. From the results of the five interviews conducted for this study, it could be seen that product and marketing innovation are pursued in the franchises, while process and organizational innovation are not.

5.1.1.1   Product Innovation

Product innovation is the introduction of a good or service that is new or drastically improved when it comes to its characteristics or intended uses (OECD, 2005). In the context of this thesis, product innovation was defined as the food and drinks that are the main products of the restaurant, as well as the environment of the restaurant, and the opening hours, which relate to the way in which the product is provided to the customer. If the franchises change any of the components of the service – food, drink, environment, or service availability, to be different in the chain from those of any other franchise in the chain, it would be considered as innovation in this thesis.

From the empirical findings of this thesis, it can be seen that product innovation is implemented by all of the interviewed franchisees. The franchisees of Naked Juicebar are able to experiment with their own juice recipes, while Paul from O'Learys decided to go beyond having a standardized menu and came up with the idea of introducing a Sunday deal that offered ordinary dishes with different toppings at a lower price. Kai from Coffeehouse A created all the recipes for the hot dishes on the menu, and regularly searches for new and better recipes to put on the menu. Eva from Coffeehouse B has experimented with the ingredients of the dishes offered in her cafe, such as using different breads or her other restaurant's sauce in the creation of dishes. Therefore, most of the franchisees interviewed for this thesis have pursued product innovation in the sense of developing their menus by experimenting with the offered dishes or by adding new dishes. They have created new dishes that are not available at other franchises of the chain, and therefore this can be considered innovation in the case of this thesis. The

findings of this thesis back up the earlier propositions of Price (1997), and Stanworth and Curran (1999), who state that franchisees display innovative capability in product innovation. This contrasts Weaven's (2004) statement that franchisees do not have enough power to implement changes in product or service development. Instead, franchisees seem to have power to implement innovation in this aspect of the business as well.

Besides menu innovation, product innovation was discovered in the context of the restaurant's layout in the interviewed franchises. Both Paul from O'Learys and Kai from Coffeehouse A implemented changes in their restaurant environment. Paul initiated changes in the layout of the restaurant – furniture settings and the color of walls, that were changed every six months when he was still the franchisee of that particular O'Learys. Kai also created his own design and chose different furniture for the cafe. Their restaurants therefore look different to some extent compared to other restaurants in the chain, and this makes the changes an innovation in the context of this thesis. Another example of product innovation was discovered in the case of O'Learys. Paul said that, as opposed to other O'Learys, he decided to keep the bar open every day until 2 AM regardless of public holidays. This is product innovation in the sense of how the product is delivered to the customer. The current franchisee of O'Learys still follows Paul's opening hours policy.

The above are all examples of innovativeness in product development. However, new product creation was also discovered in the franchises. When it comes to the introduction of new products, one of the franchises of O'Learys came up with the idea of having a bowling alley and a go-kart in the place, while another one had the restaurant turn into a night club after 10 PM on certain days of the week. Jon from Harrys also innovated by creating two new nightclub concepts: Sliver and Red. This goes in hand with Price's (1997) statement that franchisees can display innovative capability in new ideas for new products.

5.1.1.2   Marketing Innovation

Marketing innovation is the implementation of new marketing methods not previously used by the firm and may include changes in the marketing mix of the product (OECD, 2005). Changes implemented by the franchisees in these areas are considered innovation in this thesis when they are new in the franchise chain, or are improving an existing form of marketing in the chain. Marketing innovation in this form was discovered in some of the franchises included in this study.

All of the interviewed franchisees stated that they are responsible for the local marketing efforts and are not restricted in their actions when it comes to marketing. This goes in hand with Cox and Mason's (2007) findings, which state that franchisees are able to display autonomy in relation to adjusting product mix, prices, and marketing elements in response to local conditions. It was found that the franchisees interviewed for this thesis have implemented changes in the product mix and the marketing elements in order to suit the local market.

When it comes to the product mix, pricing in particular, Paul from O'Learys implemented a special deal for Sundays that was offered at a lower than regular price for a similar meal on a

weekday. This was a new pricing structure that had not been previously implemented by any franchisee in the chain, and therefore it can be considered marketing innovation according to the definition of innovation used in this thesis.

It was also discovered that changes in the marketing elements were implemented by the interviewed franchisees. Jon rents out his restaurant for events to different companies. He is part of a network of companies that support the same ice hockey team and this allows him to promote his service to them. Lisa from Naked Juicebar works closely with universities and participates at university fairs to promote the company's products to students. Eva and Kai have similar approaches, with Eva distributing discount coupons during major events at schools and universities, and Kai working closely with local junior and adult sport clubs, and promoting his cafe during sport events. Paul used traditional media sources such as newspaper advertising, radio, and local news to promote the restaurant. The current franchisee of O'Learys still uses the same media channels. However, now special coupons are distributed in the city during events. Eva, Kai, and Jon also use social media.

Based on the answers of the interviewed franchisees, it can be concluded that the ones who use social media, advertising, and discount coupons see it as an innovative marketing strategy. This goes in line with Weaven's (2004) statement that franchisees are interested in having control over local marketing, for example advertisements, coupons, and limited promotional activities. However, these interviewed franchisees might confuse the freedom that they get from the franchisor in regards to marketing efforts with innovation, which is the introduction of new or improved marketing practices. Nowadays, social media is used by a majority of companies, and many companies in the restaurant industry distribute discount coupons both offline, for instance through newspapers or during fairs, and online, using coupon websites such as Groupon or online advertising. However, this does not mean that the franchises are engaging in marketing innovation – they are just selecting particular channels to promote their products.

In the context of this thesis, with innovation being an improvement or a new practice implemented by franchisees that does not exist in this form in the chain, these marketing activities cannot be considered innovation in this sense. For example, other franchises in the Coffeehouse B and Coffeehouse A chains also use social media and coupons as their marketing strategy, and therefore Eva and Kai are not truly innovating in their marketing strategy. From the information gathered during interviews, Lisa and Oscar, Paul, and Jon engaged in more innovative marketing strategies. Paul made changes in the marketing mix of the product by changing the prices of dishes, while Lisa and Oscar used a new marketing channel – university events – where they gave out free samples of their juices. Lisa and Oscar identified an opportunity to promote their products to a particular target group – students – and used it to their own advantage. Jon has access to a unique promotion channel: a network of companies that are all involved in supporting the same hockey team.

All of the franchises examined in the thesis have autonomy when it comes to marketing efforts. However, it was found that even though they have the autonomy, it does not mean that they will innovate. For instance, even though Coffeehouse A and B engaged in some marketing

activities, mainly promotion, both chains admitted that the advantageous location of their cafes enables them visibility without putting a lot of effort into marketing.

5.1.2　Extent of Innovation

There are two categories of innovation – radical and incremental (Norman & Verganti, 2014). Both types of innovation were discovered in the interviewed franchises, although most of the innovations identified were incremental in nature.

5.1.2.1　Radical Innovation

Radical innovation is doing what companies did not do before (Norman & Verganti, 2014). Greenhalgh & Rogers (2010) state that, in service industry, radical innovation introduces a completely new type of service. Since this thesis concentrates on innovations by franchisees that are new, or significantly improved in the whole chain, radical innovation means the implementation of a completely new product, process, marketing, or organizational element that did not exist in the chain before. From the empirical findings of this thesis, it can be concluded that only O'Learys and Harrys had radical innovation in their franchises. By having bowling alleys, go-karts, and nightclubs offered in some of O'Learys restaurants, the franchises introduced a new product in their franchise that was completely new on the chain level as well. Harrys also introduced a completely new product by offering a nightclub service by opening Red and Sliver. Having bowling alleys, go-karts, and nightclubs at a restaurant is a new service because before the main service of O'Learys and Harrys was only serving food and drinks. However, now customers could visit these places with their main objective being bowling, go-karting, or clubbing instead of eating or drinking. Therefore, radical innovation at the firm level was discovered in the franchises interviewed for this study.

5.1.2.2　Incremental Innovation

Incremental innovation was also discovered in the franchises of this study. Incremental innovation means doing better what the company is already doing (Norman & Verganti, 2014), and including small improvements to an existing process, product, marketing, or organizational methods (Greenhalgh & Rogers, 2010). In the context of this thesis, incremental innovation means a franchisee implementing an improved change within their franchise that is new to the chain in the above mentioned elements. Almost every franchisee said that they are able to experiment with the menu: extend it by adding new dishes or alter the ingredients used for the dishes. This is incremental innovation rather than radical innovation because, although they are sometimes offering a new product, such as a new dish, since food and drinks are the main product category of the restaurant franchises, the franchisees are not offering a completely new service to the whole chain, but rather just adding to the existing product line. For example, if the food menu includes categories such as pasta, sandwiches, and desserts, the franchisees of O'Learys, Coffeehouse A, and Coffeehouse B have added, altered, or taken away dishes or drinks offered in those categories, but have not introduced new menu categories.

In addition to that, the layout changes implemented by Paul and Kai in their franchises are incremental innovation. Although they have come up with a new design for their stores, they have been influenced by others in the chain who have decided to change the original layout as

well. Kai from Coffeehouse A for example has worked in the same chain before starting his own franchise and therefore has partially been influenced by the other designs he has seen in the chain. In Paul's case, many elements of the design were standardized such as pictures on the walls and furniture, so he did not have much room to implement radical changes. Since the layout is considered a part of the product offered by the franchise, implementing changes in this aspect is incremental innovation, because it is not developing anything new in the chain, only improving an existing product.

When it comes to marketing, the innovations identified were also incremental. Sunday meal deals by O'Learys, free samples at fairs by Naked Juicebar, and promoting through a network to other companies like Harrys, are all incremental innovation. This is because while they are new innovations by the franchisees in their franchises, and even in the whole chain, similar practices have been previously implemented in the chain, and therefore these types of marketing innovation cannot be considered radical innovation.

5.2 Reasons behind Innovation in Franchises

The innovation types that franchisees pursue have been analyzed above. However, the question still remains: why do franchisees pursue innovation? Based on the findings from the interviews, different factors affecting franchise innovation were identified. These factors are presented in the sections below.

5.2.1 Personal Characteristics of Franchisees

The franchisees interviewed for this study come from varying backgrounds. Some have been self-employed even before they bought the franchise, while for others it is the first business they own. As Stanworth and Curran (1999) imply, the personal characteristics, and background, of the franchisees can affect their potential innovativeness. All of the franchisees interviewed for this study were asked whether they consider themselves as entrepreneurs or innovative people, and all of them stated that they see themselves as entrepreneurs. Most of them considered themselves innovative people.

Jon from Harrys even stated that he is an entrepreneur and has a constant desire to do things; to build and to invest in. He stated that this is the main reason behind his innovations. Oscar from Naked Juicebar again stated that when opportunities present themselves, you naturally want to take up on them and improve things. Therefore, the findings of this thesis seem to support the statement of Stanworth and Curran (1999) that franchisee characteristics affect the innovation in franchises, and can be one reason why certain franchisees implement innovation in their franchises, while others do not.

5.2.2 Profit-maximization

Spinelli and Birley (1996) state that franchisees, just as franchisors, aim for profit-maximization in their businesses. According to Dada and Watson (2013), innovation can be a reason behind the increased performance of a firm. Therefore, this can present another reason why franchisees innovate: increased profits. The findings of this study seem to support this

statement. Paul from O'Learys stated that monetary gains are the main reason behind innovation in his franchises. He also mentioned a franchisee who implemented a bowling alley in her restaurant to make more profit, which led to a 300% growth in the monthly revenues of the restaurant. In the same way, Kai from Coffeehouse A innovates by creating new dishes in his franchise. He stated that his innovations make his cafe better than many others in the chain in terms of sales and profit. Therefore, innovation is clearly increasing the performance of the franchises, as suggested by Dada and Watson (2013), and the monetary gains from successfully implemented innovation are likely one motivation behind franchisee innovation.

5.2.3 Previous Success in Innovation

The above also indirectly implies another theme that emerged during the interviews that could present a potential reason behind franchisee innovation: the former success in innovation. A franchisee that has achieved good results from an earlier innovation may be more likely to innovate more in order to gain even better results. For example, Jon from Harrys stated that he implemented the nightclub, Sliver, and that it was extremely successful. The next year, he implemented Red, another night club. A similar situation was discovered in O'Learys. One O'Learys franchisee first implemented a bowling alley, and later added a go-kart, since the bowling alley proved to be successful. This could therefore be considered as one reason behind new innovations in a franchise.

5.2.4 Localization

As mentioned in the frame of references, one reason why franchisees pursue innovation is when the standard franchise concept does not function successfully in the local environment (Sundbo et al., 2001). The findings of this study seem to partially support this statement in the sense that franchisees are innovating to gain a better position locally. Paul from O'Learys stated that the standard business structure of O'Learys could not satisfy all of his customers' needs, and therefore he tried to adjust the business model to concentrate on the locals by offering additional dishes for example. It was stated by Kaufmann and Eroglu (1999) that localization can benefit the franchise and the whole franchise system, since franchisees are in a better position to understand local market conditions compared to the franchisor, since they are closer to the customer. This can be seen both from the above example of O'Learys and the example of Eva from Coffeehouse B, who changes the ingredients in her dishes from time to time, so the customers will not get tired of the same food. Therefore, localization and gaining a better position in the local market seem to be another reason behind franchise innovation.

5.2.5 Customer-orientation

The above examples lead to another point that affects franchise innovation. Customers seem to be in a central position concerning the innovations as all of the franchisees interviewed for this study state that customer satisfaction is important. Sundbo et al. (2001) state not only that franchisees pursue innovation when the franchise concept is not functioning in the local environment, but also that innovation is pursued if the franchisees have received negative reactions from customers or employees. However, the results of this study would imply that Sundbo et al. (2001) have a more negative look of the franchise system. The franchisees

interviewed for this study do not seem to implement innovation only when something is wrong, but also in other occasions to satisfy the customers. Paul stated that listening to the customers and satisfying their needs is important as it keeps them coming back to the bar. Kai agreed with this, stating that customer satisfaction and customer retention are two of his main reasons behind innovation. Oscar from Naked Juicebar stated that customer feedback can also at times trigger innovation in the franchise. Therefore, there are three different customer related issues that can trigger innovation in a franchise: *customer feedback*, and *desire to satisfy customers,* and *retaining customers*.

As can be seen above, customers have a central role in franchisee innovation. This falls in line with the general theory on service sector innovation. As described by Sundbo et al. (2001), service sector innovation is mostly market and customer driven. Link and Siegel (2007) specify this as market-wide and consumer-specific innovations. This can be seen from the responses of this study as well: the franchisees aim to please every individual customer with their service, such as by offering new dishes like Paul from O'Learys and Kai from Coffeehouse A, or by slightly altering the dishes like Eva from Coffeehouse B.

However, the franchisees also aim to gain new customers with market-wide innovation strategies, such as those of Lisa and Oscar from Naked Juicebar by collaborating with local schools or Kai from Coffeehouse A by working with local sports teams for visibility. Kai even specifically mentioned that another of the main reasons behind his innovations is to attract more customers to his coffeehouse. Jon from Harrys agreed with this, saying that attracting more customers is a part of why they innovate. Oscar from Naked Juicebar also stated that they aim to reach different demographic groups. Reaching new demographic groups can also be recognized in the case of Jon, since they have opened Sliver and Red, which each serve different demographic groups: the first one the youth, and the latter one people aged 40+. Therefore, this adds a fourth element to the reasons behind franchise innovation that are related to the customers: *attracting new customers*. As can be seen from the above sections, the theory about the drivers of innovation in the service sector applies to the franchises within the sector as well.

5.2.6   Desire to Improve

It is apparent from the responses of the interviewed franchisees that their innovation is generally more positive than implied by Sundbo et al. (2001) and aims for improvements in the franchise. This is supported both by Oscar from Naked Juicebar and Kai from Coffeehouse A, who both stated that they innovate because they want to improve the franchise. Therefore, another reason behind innovation seems to be the desire to improve the concept. This could, however, also be related to the other factors described above, such as improving things for the sake of the customers or in order to create more profits.

5.3   Franchisor and Franchise Innovation

After having identified the different types of innovation pursued by the franchisees and the motivation behind the innovation pursuit, the remaining question is to what extent the franchisor is involved in franchise innovation.

5.3.1   The Role of the Franchisor in Franchise Innovation

In the study at hand, it can be seen that some of the examined franchisors take active part in franchise innovation by allowing, but furthermore, also by encouraging franchisees to innovate. Falbe et al. (1999) propose three ways in which franchisors can encourage entrepreneurial activities in their franchises – the recognition of innovation at annual meetings, a franchise council, and the presence of an innovation champion. The findings of this study recognized two ways in which the franchisor tries to engage in franchise innovation – a franchise advisory board, which is similar to a franchise council, and annual meetings at which new ideas can be discussed, similarly to the proposal of Falbe et al. (1999).

There is a franchise advisory board in Naked Juicebar with rotating board members; three franchisees at a time. The aim of the board is to take feedback from the different franchisees and to bring it to the franchisor, and to generally discuss innovative ideas proposed by customers and franchisees. This finding aligns with Falbe et al.'s (1999) proposed ways of encouraging franchise innovation. In addition to the franchise advisory board, Naked Juicebar tries to further support innovation by allowing franchisees to propose ideas to the headquarters directly and by evaluating those ideas and responding to such quickly. Lisa, as a Naked Juicebar franchisee, does not feel limited in her actions, which can be related to the franchisor's friendly approach towards franchisees' ideas. Overall, Naked Juicebar emphasizes two-way communication between the franchisor and the franchisee, which allows both parties to transmit information.

In Paul's case, there is no specific franchise advisory board but instead, the franchisor has regional representatives. These representatives are franchisees and they forward new ideas proposed by franchises in their region to the franchisor. In Coffeehouse A, Coffeehouse B, and Harrys however, there is no council at all but instead the franchisor organizes regular meetings for the whole franchisees with the intent of discussing proposals made by the franchisees and customers. As pointed out, the recognition of innovative ideas at such meetings can encourage franchisees to innovate (Falbe et al., 1999). In the case of Harrys, the franchisee meetings allow the franchisees to make proposals and to be a part of the chain's development. In the findings of Coffeehouse A and Coffeehouse B however, the franchisor neither recognizes franchise innovations nor allows the franchisees to have a real impact at these meetings in regards to innovation. Instead, the franchisor rather uses the meetings as a tool to ensure ultimate franchise system compliance and to reinforce the franchise concept. Eva stated that the Coffeehouse B franchisor uses top-down communication and she feels that she cannot truly contribute her ideas. Kai stated that because of Coffeehouse A's meetings that do not allow the franchisees to propose and discuss new ideas, he does not go to such meetings anymore.

In all interviewed franchise restaurant chains, the main offices have a department or a single person responsible for the management and approval of new ideas proposed by the franchisees. All of the franchisees stated that they can present their ideas to the headquarters. However, Paul from O'Learys and Kai from Coffeehouse A feel that the majority of the ideas proposed by them get rejected. Paul feels that he, as a franchisee, is limited by the franchisor when it comes to implementing a new idea. Kai feels that Coffeehouse A does neither encourage nor appreciate innovation. His ideas get mainly rejected by the franchisor but Kai implements them

anyway. Therefore, Kai is not exactly compliant with the franchisor, but due to his special contract, he can be less compliant without the potential consequences of having his franchise taken away from him by the franchisor. Despite his special contract, however, his case can still be compared with the argument that it can be beneficial for the franchisor to allow franchise innovation, since this is linked to a higher degree of compliance (Davis et al., 2011; Baucus et al., 1996). This implies that if Coffeehouse A was more open-minded towards franchise innovation, Kai would be more likely to accept the franchisor's decisions.

Kaufmann and Eroglu (1999) argue that some franchisors do not trust their franchisees at all and act as ultimate system creators – holding autocratic leadership and ignoring recommendations and solutions from franchisees. Despite of Kai being a unique Coffeehouse A franchisee, the regular Coffeehouse A franchisees have very limited opportunities when it comes to innovation, since the franchisor constantly makes compliance checks on the franchisees and does not tolerate changes much. The same scenario can be examined in Coffeehouse B, since the main office makes regular visits to the franchises to see that the concept is correctly implemented. In these two chains, innovation happening on a local level appears to be hindered by the franchisor rather than encouraged.

5.3.2   Bargaining Power of Franchisees

Felstead (1993) argues that franchisees are relatively powerless in the franchisor-franchisee relationship. However, Paul, Kai, and Jon show that franchisees can have more power in this relationship than the literature suggests. When Paul started as a franchisee, the O'Learys franchisees, as a collective group of six franchisees, could relatively easily propose and implement new ideas. However, today, with around 100 O'Learys situated in different countries, Paul said that franchisees are more limited when it comes to innovation. This finding contradicts with Kaufmann and Eroglu (1999) who suggest that as a franchise system matures, it may become less strict about imposing standardization. O'Learys franchisees had more freedom when the chain was only a couple of years old. Paul stated that that this is because, when O'Learys was younger, the franchisees needed to ensure that their franchises could stay competitive by the means of innovation. This finding aligns with Falbe et al. (1999), who argue that franchise innovation is important when a franchisor faces increased competition.

Jon from Harrys shows that franchisees can have more bargaining power than suggested in the literature as well. When Jon proposes changes to the franchisor, he can usually implement them since he owns the largest Harrys and also owns the company's shares. Furthermore, in Harrys, the same phenomena as in O'Learys can be examined. Jon stated that Harrys is less strict today regarding franchise innovation than it might be in the future. This again contradicts with Kaufmann and Eroglu's (1999) finding on more standardization in the early phase of a franchise chain and less once it has matured. The Naked Juicebar, however, supports this statement. Oscar said that the chain, now that it has matured, might be willing to be less standardized in the future and to give more freedom to the franchisees when it comes to innovation.

Kai, as a franchisee, is rather unique since he has both of his franchise contracts issued on his name. When he signed the contracts, he had bargaining power since the franchisor was dependent on someone opening a new franchise in a new location. This special contract allows Kai to execute more power as a franchisee than implied in previous literature. This finding contradicts with Felstead (1993) who states that a franchisee is usually recruited on a "take-it-or-leave-it basis" (Felstead, 1993, p.193). Coffeehouse A needed to stay competitive, which is why the franchisor agreed on these special terms.

5.3.3   Diffusion of Franchise Innovation

Overall, the findings show that the franchisor's role in the innovations pursued by franchisees differs – varying from encouraging franchise innovation to limiting it. In the majority of the cases, the franchisor considers and values innovations. In O'Learys and Harrys for instance, innovative ideas were not only implemented in one single franchise but partially diffused throughout the chain by the franchisor. O'Learys now advises franchisees to include a bowling alley or a go-kart room since these features turned out to be profitable. As for Harrys, the franchisor advises new franchisees to include the nightclub, Sliver, in their establishment. In Naked Juicebar, franchisee innovation is also diffused by the franchisor. However, such franchisee innovations must be implemented on the whole chain level once they are approved.

In the case of Coffeehouse A, it is solely the franchisor who is behind the innovation of elements that concern the whole system. Even though franchisees specifically asked the franchisor to be allowed to implement Kai's changes in their respective franchises, there was no diffusion of franchise innovation at all. In Coffeehouse B, no diffusion of franchise innovation was discovered.

6   Conclusions

This chapter of the thesis will restate the purpose and the research questions of the thesis and summarize the answers to these questions based on the analysis of the last chapter.

The purpose of this thesis was to examine the position of innovation in Swedish franchises within the restaurant industry. The purpose of the thesis was fulfilled by answering the three research questions. Answers to the research question are as follows:

- **Research question 1:** *What type of innovation do franchises in the restaurant industry pursue, if any at all?*

It was discovered that franchises in the restaurant industry do pursue innovation. Using the innovation types described by Schumpeter (Oslo Manual, 2005), two types of innovation were identified in Swedish restaurant franchises; product and marketing innovation. It was also discovered that the innovation in these franchises is mostly incremental, rather than radical.

- **Research question 2:** *Why do franchisees pursue innovation?*

Six different factors affecting franchisee innovation were discovered: the personal characteristics of the franchisee, increased profits, localization, previous success in innovation, desire to improve, and customer-orientation through customer satisfaction, customer feedback, retaining customers, and attracting new customers. These factors contribute to the reasons why innovation is pursued in franchises.

- **Research question 3:** *What is the role of the franchisor in the franchisee's innovative pursuits?*

It was identified that some franchisors encourage franchise innovation, while others have a more passive, or even discouraging stance towards franchise innovation. Those franchisors that encourage innovation do so via regular franchisee meetings and franchise councils. Generally, these franchisors appreciate franchise innovation and allow the franchisee to have a high degree of freedom when it comes to franchise innovation. Other franchisors, however, limit and restrict franchise innovation, and thereby, also decrease the amount of innovation pursued by franchisees.

7   Discussion

In this final chapter of the thesis, the authors will discuss additional topics that arose from the findings that are not directly related to the research questions but are still of great importance to the topic. In addition, the limitations of the study will be stated and suggestions for future research will be made.

7.1   Process and Organizational Innovation

Neither process nor organizational innovation was discovered in the Swedish restaurant franchises included in this study. In the case of organizational innovation, the finding was expected, since the literature reviewed for this thesis has not addressed organizational innovation in the context of franchises. This could be due to the organizational aspects of a business being an integral part of the system, and therefore in the case of franchises, these aspects of the business are likely completely stated by the franchisor, leaving no room for franchisees to innovate within them.

However, in the case of process innovation, the discovery was not expected. According to Price (1997), who researched fast food franchises in the U.K., franchises are the most likely to pursue process innovation, since through such innovation they may be able to reduce the operating costs of the business. However, process innovation was not discovered in this study, and reducing operating costs did not come up as one of the reasons behind franchisee innovation either. Therefore this could imply that there are differences between the franchises in different countries. The difference could also be due to the fact that fast food franchises were studied instead of coffeehouses and bar-type restaurants like in the case of this study. While they are both franchises within the same industry, they are still slightly different types of businesses and it can account for some difference in results.

7.2   Service Sector Innovation and Swedish Franchises

It was discovered that the innovations pursued in Swedish restaurant franchises are more incremental than radical. This aligns with the statement of Pilat (2001, cited in Link & Siegel, 2007), that service sector innovations are generally small and incremental. The discovered reasons behind franchise innovation also partially align with the theory on service sector innovation. Link and Siegel (2007) state that service-sector innovations are based on market-wide and consumer-specific needs. As described in the analysis, both of these seem to factor in the innovation pursuits of restaurant franchises. Therefore, with these similarities between service sector innovation, and the innovation in restaurant franchises, the question arises whether franchises need to be researched separately from their respective sectors. After all, the franchises are a part of the sector and, besides being franchises, the sector determines a part of the context within which they operate. This could also account for the lack of research on the topic of innovation within franchises in specific. Perhaps, the franchises are simply included in research conducted on their respective industries or sectors, instead of having research conducted only on franchises.

7.3 Franchisees as Entrepreneurs

Withane (1991, cited in Price, 1997) state that the entrepreneurship construct consists of three implicit dimensions – innovativeness, risk-taking, and proactiveness, and the first two are perceived to be important for the successful operation of a franchise. Nevertheless, the literature also argues that franchisors will hire non-entrepreneurial managers since entrepreneurs will want more autonomy than the franchisor can allow them; this might be the reason why entrepreneurially oriented people will not even want to start franchises (Falbe et al., 1998). However, it is clear from the findings of this study that the Swedish franchisees not only just consider themselves to be entrepreneurs, but also are entrepreneurs who have owned other businesses before, still own other businesses, or simply display desire to innovate and implement new things in the franchises. Also, it is clear from the study that Swedish franchisors do hire entrepreneurial franchisees. Since this study was only conducted from the franchisee's perspective, it is, however, not clear what the reasons are for the franchisor to take in entrepreneurial people into the chain.

7.4 Innovation in Different Types of Restaurant Businesses

The findings of this study imply that there is a difference between the different restaurant types when it comes to franchise innovation. It appears that bar-type restaurant franchises allow, and also pursue, a higher degree of innovation than the other types of businesses within the restaurant industry that were included in this study. One explanation for this could be that the service offered by the bar-type restaurants is broader, since it focuses not only on the products; food and drinks, but also on entertaining the customers to make them stay at the restaurant for a longer time. That is why this specific restaurant type might allow more franchise innovation as the franchisees can come up with valuable ideas on how to expand and improve the service. However, in the case of coffeehouses, it appears that franchisees are more limited in their innovation and that the franchisor is the dominant party in charge of innovation.

Furthermore, this study also found that radical innovation is more likely to be found in bar type restaurants. Again, this might be related to the service offered in this type of restaurant with more room for innovation. The reason why the other types of franchises only implemented incremental innovation in their franchises could also be related to the franchisors of these businesses not offering such strong encouragement for franchisee innovation within the system. Instead, the franchisor rather ensured standardization in these systems. As can be seen from the empirical findings of this study, the standardized elements in all the franchise systems interviewed for this study were similar; the food and drinks. Therefore, it would seem that the extent of standardization is not a contributing element to why the bar-type franchises innovated more radically, while the other types of restaurant businesses in this study practiced only incremental innovation. Instead, the differences in the extent of innovation seem to originate mostly from the franchisor's encouragement or discouragement of innovative practices.

The franchisors of these chains possibly do not want to encourage innovation in the franchises due to the negative effects that allowing franchisee innovation in the chain can create, such as brand deviation or quality deterioration, as stated by Baucus et al. (1996). It would seem like

these franchisors want to establish a consistent format in all of their franchises. A potential explanation may be the fact that compared to the bar-type restaurants included in this study, the other franchises may just be more traditional types of franchises, with a greater importance on offering exactly the same products and no additional services besides the ones already included in the concept.

7.5   Practical Implications

The implications of this study concern three parties – the franchisor, potential future franchisees, and current franchisees.

This thesis has demonstrated that franchisees can be innovative. This finding could encourage potential future franchisees, who might not want to become a franchisee due to the seemingly limitations, to buy into a franchise. Furthermore, it could motivate current franchisees to explore the borders of their relationship with the franchisor and to possibly take a pro-active stance in regard to innovation. The study showed that innovation can be beneficial for the franchises in terms of gaining more customers and increasing profits, which could incentivize more franchisees to innovate.

The findings of this study propose that franchise innovation is also beneficial to the whole franchise chain, which implies that franchisors should be interested in encouraging franchisees to pursue innovation. Franchise innovation can allow franchisees to attract more customers in their respective franchises, which can increase their profits and thereby, also increases the royalty payments paid to the franchisor. Therefore it would be beneficial for the franchisor to create a channel through which ideas can be communicated, evaluated, and possibly implemented if the idea has the potential to benefit the chain.

The study also implies that franchisee innovation can increase franchisee compliance to the overall policies of the chain. If the franchisor limits franchisee innovation, there may be a decrease in compliance, and therefore, the franchisor should allow at least some freedom for the franchisees to innovate.

7.6   Limitations

This research is not without limitations. Due to the time restrictions of this study, the sample size is rather small – only five franchisees were interviewed. Also, this study was conducted by interviewing only one franchisee per franchise chain in order to gain more varying results and a better overview of the restaurant franchise environment. However, this reduces the trustworthiness of the study. Repeating the study with more franchisees per chain and including more franchise systems would increase the trustworthiness and make the findings more generalizable.

The findings of the study may also be slightly biased. Fifteen franchisees were approached but only five of them agreed to participate in the study. All of the five franchisees interviewed pursued innovation in their franchises. It is possible that these five participants agreed to be
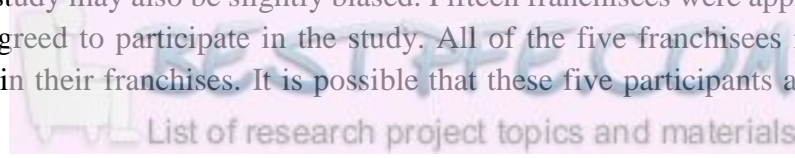
interviewed because the study topic was relevant to their case. This could mean that the study has potentially missed the answers of less innovative franchisees, since they did not find the study topic relevant to their case or they were not interested in it.

7.7   Future Research

This thesis focused on researching the position of innovation in the franchise context when it comes to Swedish franchises in the restaurant industry. Suggestions for future research include looking at different industries or making an industry comparison. Another possible topic for future research would be to conduct a study similar to this one on Swedish franchises operating in foreign countries. Studying Swedish franchises in a foreign context would allow for a comparison to be made on whether the culture of the country where the franchise is located affects their innovation.

This thesis has looked at the issue of innovation in franchises from the perspective of the franchisee. However, it could be vital to look at the same issue from the franchisor's perspective. By combining these two perspectives, a more comprehensive view on innovation in Swedish franchises in the restaurant industry could be gained. By examining franchisors' attitudes towards franchisee innovation, general innovation policies, and franchisor boards and meetings, a more thorough understanding on the position of bottom-up innovation in franchises can be achieved.

Contrasting findings were discovered in this study on the topic of the age of the franchise affecting the freedom of the franchisees to innovate. Therefore another potential future research topic could be conducting a longitudinal study on the topic and considering how the age of the franchise affects the level of innovation allowed in the chain. Since, in this study, there were contradicting findings between coffeehouses and restaurant bars on this aspect, it could also be beneficial to study the different types of franchises within the restaurant industry separately, or to compare them with each other to determine whether there are more differences between these types of franchises although they are both a part of the restaurant industry.

Future research could also focus on the franchisee's professional background and its influences on the degree of innovation pursued. Since it was found in our study that some franchisees were self-employed before becoming a franchisee, a potential research topic could be to explore if franchisees with previous self-employment experience are more likely to innovative within their franchise than franchisees without any previous experience.

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Appendix 1

Interview Questions

1. Background
- How long have you been a franchisee and did you work in this company before?
- Have you been self-employed before?
- Do you own any other stores within the chain?
- Do you consider yourself an entrepreneur?
- Do you consider yourself to be innovative (as a person)?

2. Innovation
- Do you innovate within your franchise?
- If yes, then why do you innovate? (find his/her motivations and attitudes towards innovation and being able to pursue it)
- If yes, then can you give us an example of projects that were innovative in nature?
- If not, is it a) because you do not want to? or b) because the company limits innovative activities?
- Do you know of other franchisees who innovate within their franchises? What kind of innovation are they pursuing?

3. Franchise system
- In your franchise chain, which areas of the business are highly standardized and which ones are more flexible?
- Is the overall company (franchisor) encouraging innovation and how?
- Is there a department that is promoting innovation initiatives in franchisees?
- Does the franchisor provide rewards/other motivation and what kind?
- Do you feel limited in your actions by the rules imposed by the franchisor? (maybe give an example)
- What is the procedure behind implementing an innovative idea in the franchise system?
- Do you feel that it is difficult to propose and implement innovative ideas in your local business?
- Are the innovative solutions and ideas that you come up with and implement in your store, adopted by others within the chain? (if yes, ask for examples)