

EDITED BY
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**INNOVATIVENESS
DETERMINANTS
OF NETWORK
ORGANISATIONS
IN THE KNOWLEDGE
ECONOMY**



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Reviewer

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Chapter VII. Innovativeness determinants of franchise organisations

7.1. Introduction

It is important to point out when analysing business networks, that franchise companies (franchise networks) are one of the types of network organisations. In a global economy, franchises are developing dynamically, allowing to achieve a competitive advantage and global expansion. In the modern world franchise organisations are present on almost all continents and in almost all sectors of the economy. Nowadays franchise systems have to face the growing competition and increasing market saturation of products and services offered by enterprises and enterprise networks. The way for franchise organisations to meet these challenges, is the diversity of their offers in relation to competitors and matching them to the needs of customers. They can do this by creating and implementing innovations.

Franchise organisations developing in the economy become the target of a number of empirical analyses. The significance of conditions and the degree of innovativeness of enterprises that are members of the franchise's ties were determined in the present study. The research problem was formulated as: the level of innovativeness of franchise companies, sources and innovative activity, as well as the benefits of the implementation of innovation and the factors stimulating and limiting the development of innovation in franchises. The research assumptions related to innovativeness of franchise organisations were adopted. They arise from the nature of the franchise and rules of franchise relations. Franchise relies on standard solutions implemented in the global economy through the creation of a single franchise unit, the implementation of proven business concepts and building relations based on cooperation of financially and legally independent economic entities. The following assumptions were presented in the study:

- innovations are implemented in franchise companies to enhance the competitive position of the network and of all its participants (franchisors and franchisees);
- the introduction of new products or services and the use of new marketing actions are the main type of innovations in franchise organisations;

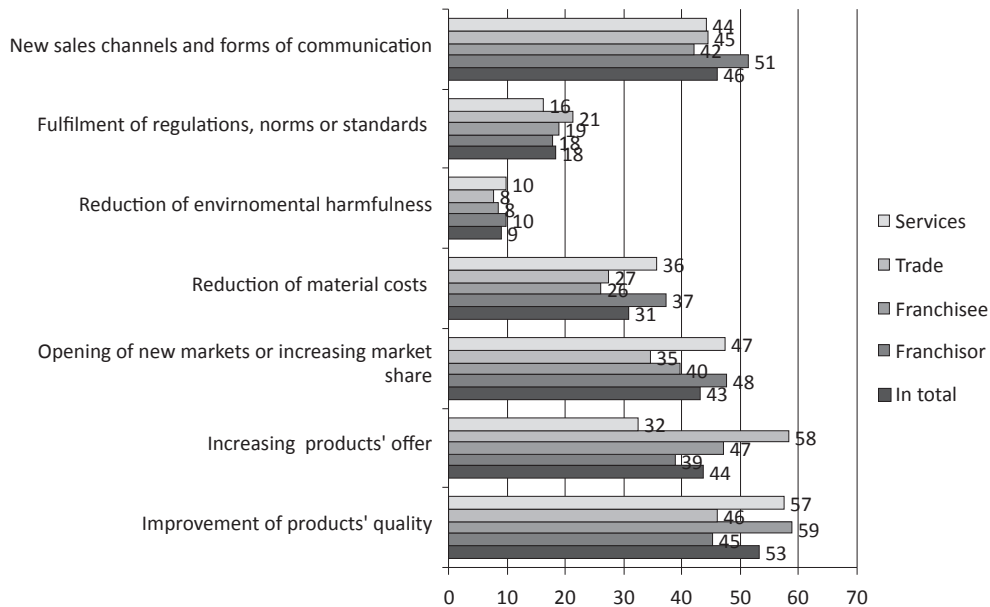
- participants of franchise are the main source of its innovations.

The study population included enterprises which were network's organisers (franchisors) and network's participants (franchisees). The study population consisted of 121 enterprises, 51 of them were franchisors (creators and network's organisers), and 70 represented the franchisees. Respondents answered the questions in two ways: by referring to the enterprise in which they work, or which they own and by referring to the network in which the company operates. In practice, this meant that the franchisors (network's organisers) answered the questions relating to enterprise itself and to the system, which the company coordinates. In contrast, the franchisees, which are network participants, provided answers from the perspective of their own franchise unit and franchise system, in which the institution operates. If we have a closer look, we discover that respondents who are franchisors, had knowledge about their own business and created system, and therefore they were able to provide more specific and credible answers. In contrast, the franchisees answering questions about the network were guided by their observations and conjectures of how the network is functioning and not by any specific data. In the analysis of the research problem one focuses on these results, which indicated significant relationships and allowed the verification of accepted research problems. Therefore, one omitted the analyses showing similar distributions, which did not allow to identify significant differences or to draw conclusions.

7.2. Premises for implementing innovations in franchise organisations

Referring to the first stage of research, one performed the analysis of reasons why franchise companies and franchise networks implement innovations. Analysing the results, one can conclude that in total franchise organisations introduce innovations in order to improve the quality of products (53% of respondents), to use new sales channels and forms of communication (46%), to increase the range of products (44%), to open new markets or increase market share (43%) (Fig. 7.1).

It is worth mentioning that opening of new markets or increasing market share (48% of responses) and new sales channels and forms of communication (51%), as well as the reduction of material costs (37%) are very important for franchisors. These categories derive from the essence of the franchise and from the role for which the companies implement strategy of growth through franchise. Because of this fact indications of franchisors in mentioned categories of responses were more frequent than of franchisees.

Figure 7.1. Reasons of implementing innovations in franchise organisations in %

Source: Own research 2013, Department of Enterprise Management, Institute of Management SGH, N=121.

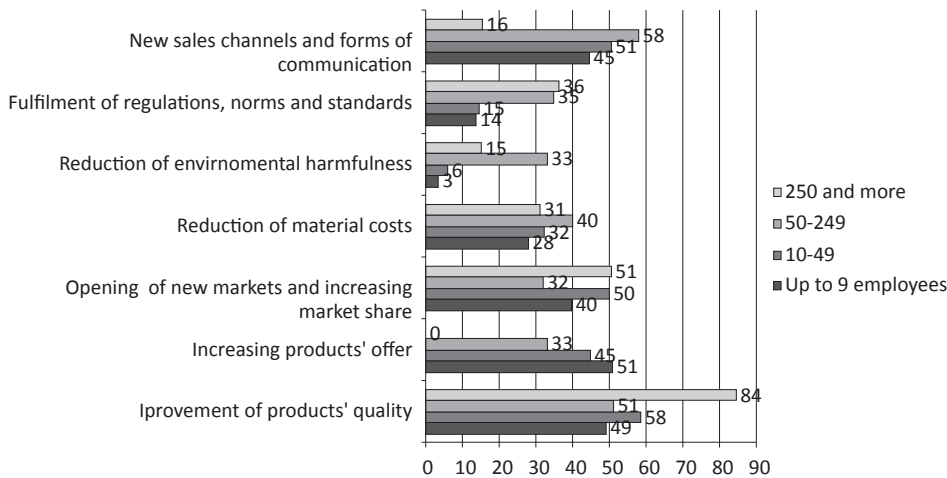
In contrast, network participants, franchisees, often pointed to the categories associated with the product and its offer, as motives of implementation of innovations. This is related to the characteristics of the franchise and the factors that are relevant to the franchisee. Increasing the range of products' offer (58% of responses) is very important in implementation of innovations in the franchise companies operating in the trade sector. It is an important factor in the trade, in which the creation and implementation of innovations are to increase the competitive position of the company. The results showed that the improvement of product's quality (57%), the opening of new markets or increase of market share (47%) were more often indicated in service sector.

Examining the reasons for the introduction of innovation in franchise organisations one can conclude that for micro and small enterprises they are similar. Respondents from the micro enterprises declared the increase of the range of products (51%), and small businesses indicated the improvement of product's quality (58%) (Fig. 7.2).

Medium-sized enterprises stressed new sales channels and forms of communication (58%). The ecological context appeared in the answers of respondents from medium-sized enterprises. It is interesting that for this category of enterprises, the implementation of innovations in order to reduce the harmfulness was indicated by 33% of respondents – most common from all types of businesses. The quality of

products (84%) plays the dominant role for large companies in terms of implementing innovations. In general, one can say that the fulfilment of regulations, norms and standards, as the motive of implementing innovations was more important for medium and large enterprises than for micro and small businesses. In contrast, increasing the range of products was not indicated by the respondents from large companies.

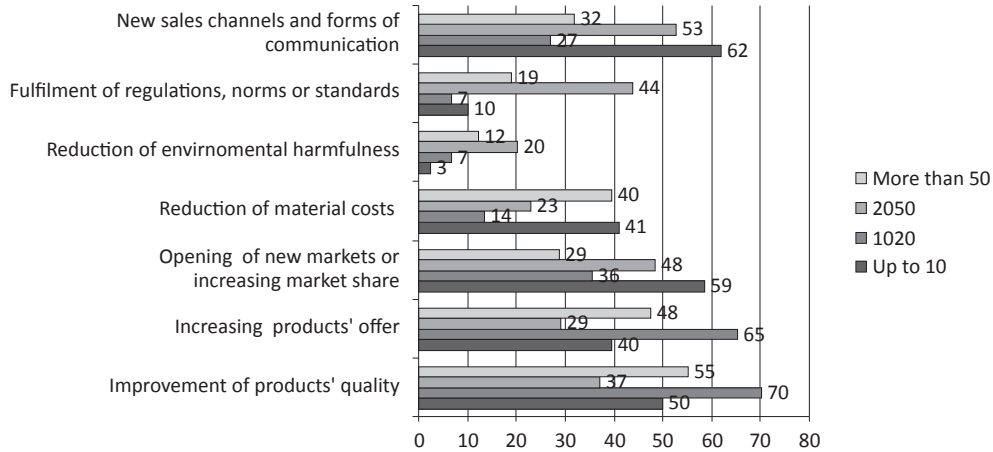
Figure 7.2. The reasons for the introduction of innovations in franchise organisations depending on the number of employees in %



Source: Same as Fig. 7.1.

The reasons for implementation of innovations and their interdependence with stages of network development were significant in the study (Fig. 7.3). New sales channels (62%), opening of new markets or increasing market share (59%) as reasons for the introduction of innovations were most often stressed by enterprises belonging to the small network franchises. Creating new opportunities to increase the competitive position on the market is significant for small network's participants with up to 10 participants. Categories associated with the products' quality and offer (respectively 70% and 65% of responses) were meaningful to slightly larger networks (10–20 participants). What's more, companies belonging to the networks with 20–50 participants pointed to new distribution channels (53%), opening of new markets or increasing market share (48%). And also, only they emphasised the importance of fulfilment of the regulations, norms or standards (44%). Factors relating to the quality and range of products' offer (55% and 48%) are important for implementation of innovations in large networks.

Figure 7.3. The reasons for implementation of innovations in franchise companies depending on the size of the network in %

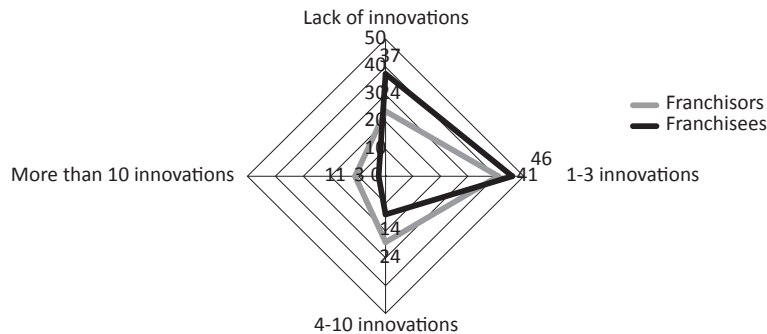


Source: Same as Fig. 7.1.

7.3. Innovative activity of franchise organisations

The survey on innovative activity was conducted in the further analysis. The results showed that quarter of franchisors and more than one-third of franchisees did not implement innovations in their enterprises in the years 2007–2012 (Fig. 7.4). The data shows that almost half of surveyed franchisees (46%) introduced from 1 to 3 innovations in the analysed period. Franchisors more often stressed the implementation of 4 to 10 innovations in the declared period (24%). Network coordinators also more often reported implementing more than 10 innovations. The analysis shows that the innovative activity of franchisors is higher than network’s participants when implementing more than 4 innovations.

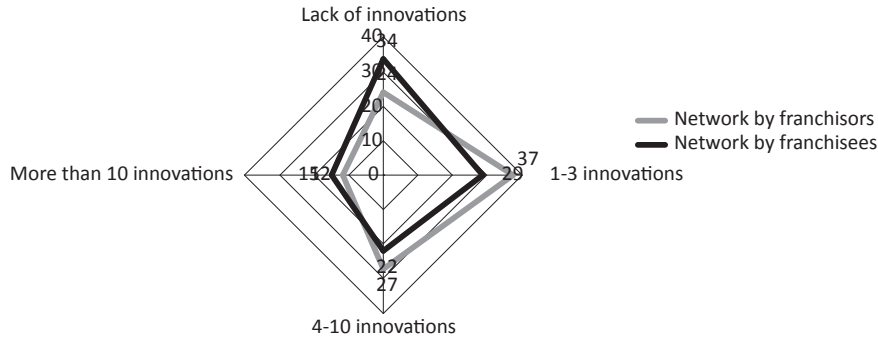
Figure 7.4. Innovative activity of franchise organisations in %



Source: Same as Fig. 7.1.

Figure 7.5 presents the analysis of innovative activities of franchise networks.

Figure 7.5. Innovative activity of franchise networks in %



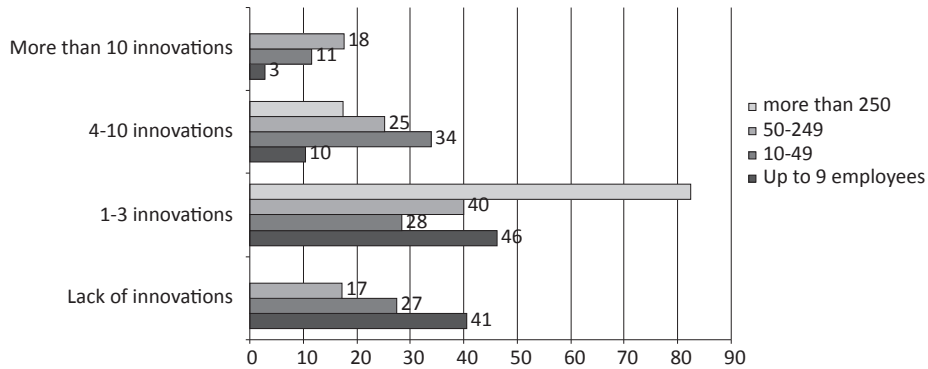
Source: Same as Fig. 7.1.

On the basis of obtained results, one can state that in the opinion of franchisees, 34% of the networks did not implement any innovations, and 29% used 1–3 innovations in the development of the company, while 22% of the networks introduced 4–10 innovations. The creators of network – the franchisors – declared that 24% of the networks do not use innovations and 37% of the networks implemented 1–3 innovations. In contrast, 27% of networks introduced 4–10 innovations, and only 12% of respondents implemented more than 10 innovations. Narrowing the scope, one can conclude that from the perspective of franchisors, the picture of innovative activity is more positive than from the perspective of franchisees.

Further analysis of the study shows that no innovations were implemented in the micro enterprises (41% of responses). Furthermore, all large enterprises introduced at least one innovation, therefore answer “no innovations were implemented” was not indicated (Fig. 7.6).

These enterprises, compared to the group of all respondents most often expressed the implementation of 1 to 3 innovations (82%). Small enterprises most frequently pointed to implementation of 4–10 innovations (34%). More than 10 innovations were introduced by medium-sized enterprises (18%). Medium-sized enterprises most often stated the implementation of up to 3 innovations (40%). Small businesses in comparison to large enterprises had the biggest problems with the introduction of innovations. Innovativeness barriers are associated with the size of the company and are higher for micro and small businesses.

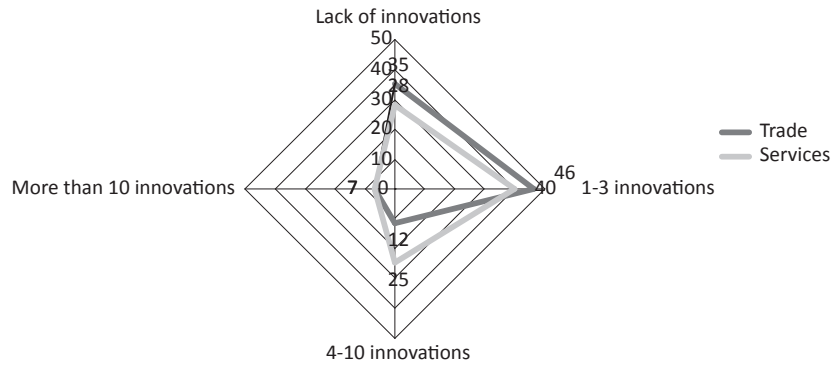
Figure 7.6. Innovative activity of franchise companies depending on the number of employees in %



Source: Same as Fig. 7.1.

The analysis of innovative activity of franchise companies due to the type of business they conduct is presented below (Fig. 7.7). It is worth mentioning that more trading companies declared that they did not implement any innovations in the years 2007–2012 (35%). Observations show that the respondents representing trade sector often pointed out that they introduced 1–3 innovations (46%). In contrast, one quarter of the service companies implemented 4–10 innovations.

Figure 7.7. Innovative activity of franchise companies depending on the type of business in %

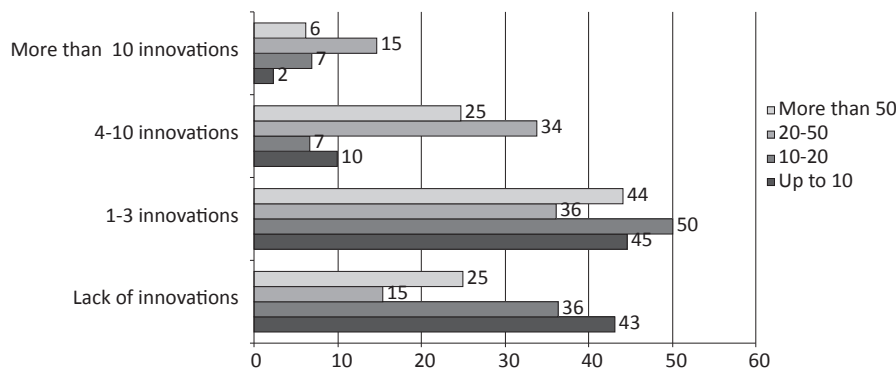


Source: Same as Fig. 7.1.

Innovative activity of franchise companies depending on the size of networks was essential. It allows to draw a conclusion that the majority of companies operating in small networks (up to 10 participants) did not implement any innovations in the analysed period (43%). (Fig. 7.8). The implementation of several innovations (1–3 innovations) was most frequently indicated among respondents belonging to

a network of 10 to 20 participants (50%). Further analysis showed that in medium networks with 20–50 participants enterprises indicated the implementation of 4–10 innovations (34%) and over 10 innovations (15%). One can draw conclusions from the results of the study that with the increase of network's size to which the company belongs, the number of implemented innovations did not increase in the period 2007–2012. Enterprises belonging to the networks with more than 50 participants, most often declared that they implemented 1–3 innovations (44%). What's more, they least likely declared the lack of implementation of innovations in the analysed period (25%). On the other hand, companies belonging to small networks to a greater extent declared that they implemented up to 3 innovations (45%).

Figure 7.8. Innovative activity of franchise companies depending on the network's size in %

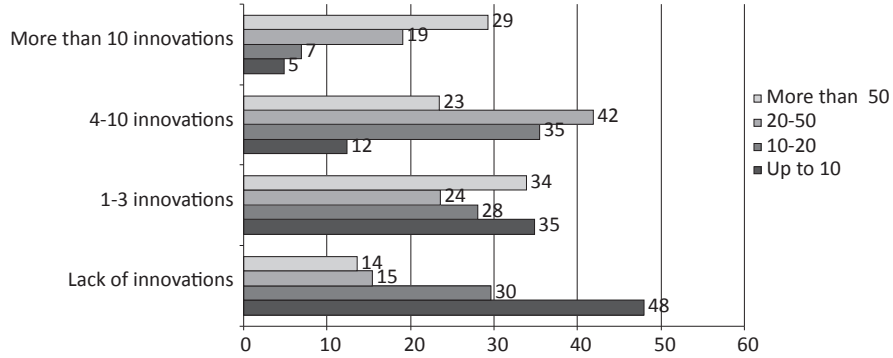


Source: Same as Fig. 7.1.

Observation of the relation between the size of a franchise network, and its innovative activity shows that almost 50% of respondents belonging to small networks declare the lack of implementation of any innovations in the network (Fig. 7.9).

Based on these data, it can be concluded that larger networks with 20 participants perform better due to the lack of implementations (15% and 14% respectively). The representatives of the smallest and largest networks pointed to the introduction of up to 3 innovations (35% and 34%). Respondents from medium-sized networks (20–50 participants) implemented the average number (4–10) of innovations – 42%. An interesting fact is that the majority of responses in the category of implementation of more than 10 innovations were provided by representatives of large companies (29%). In conclusion, small networks less often introduce any innovations and if one managed to implement them, they are not numerous (up to 3). Generally, one can say that with the increase of size of the network, the frequency of declared implementations of innovations increases.

Figure 7.9. Innovative activity of franchise networks depending on the network's size in %

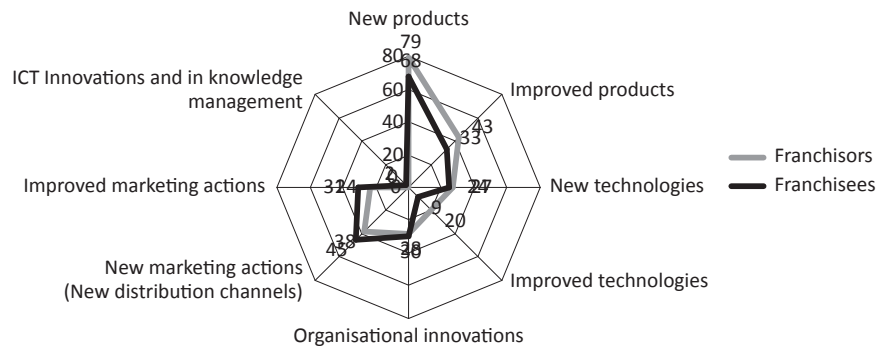


Source: Same as Fig. 7.1.

7.4. Types of innovations in franchise organisations

Another aspect of the research was to analyse the categories of innovations implemented in enterprises (Fig. 7.10). Innovations of new and improved products are the most important for franchisors (79% and 43%). On the other hand, new products (68%) and new marketing actions (45%) are crucial for franchisees. Following types of innovations: organisational innovations, new and improved marketing efforts (new distribution channels), improved marketing and innovations of ICT were indicated more often by franchisees than by franchisors. It should also be noted that improved technology, ICT and knowledge management innovations are least significant both for franchisors and franchisees.

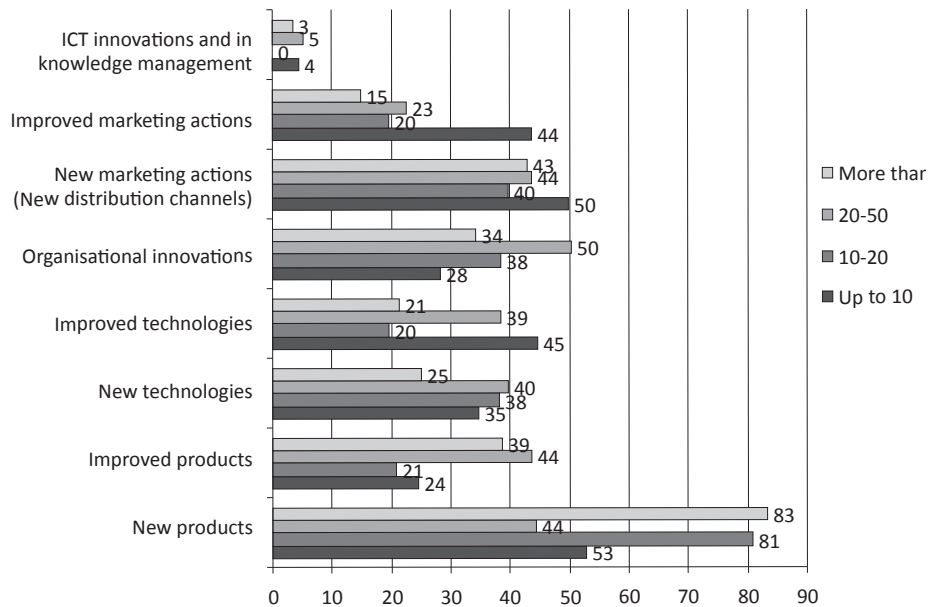
Figure 7.10. Types of innovations implemented in franchise companies in %



Source: Same as Fig. 7.1.

In terms of types of innovations implemented in networks, differences due to the network's size are also visible. On the basis of the obtained data, one can state that new and improved products are the most numerous categories, which appears in a large number of responses in all types of networks (Fig. 7.11). Organisational innovations are very crucial in networks with the number of participants from 20–50 (50%). New and improved marketing (new distribution channels) are significant for small networks with up to 10 participants (50% and 44%). This results from the fact that small networks need these innovations for the development of building a competitive advantage in the market.

Figure 7.11. The types of innovations implemented in franchise networks depending on the network's size in %



Source: Same as Fig. 7.1.

Another area of research issues concerned the types of innovations and conclusions due to the type of business of franchise companies (Fig. 7.12). What's interesting, new and improved products are essential for entities operating in trade (85% and 41%). New distribution channels (50%) are very important, so as to increase the number of trade points. Product innovations are significant for the service sector. However organisational innovations (40%), new technologies (37%) and improved marketing actions (36%) are more meaningful to them than to trade companies. Franchise companies from service sector base their competitive position not only

on the elements associated with the product but also on other categories of innovations. This results from the nature of the service sector and franchise companies operating in the market. Their business concept is based on offering services and products, therefore complete business concept with a detailed know-how is required. In contrast, trade in the franchise, to a large extent is based on offering co-branded products in unitary points of sale.

Figure 7.12. The types of implemented innovations in franchise companies depending on the business sector in %

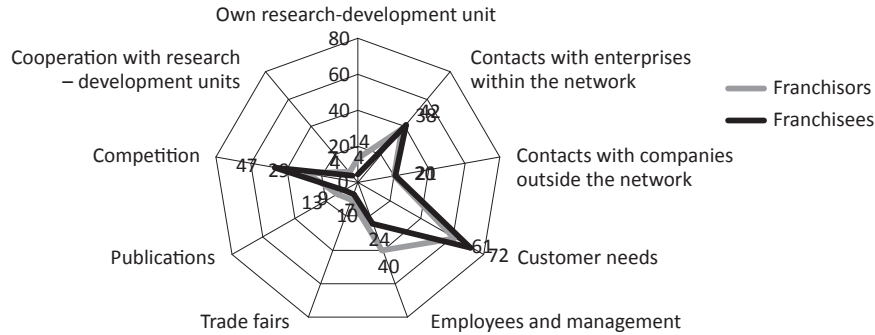


Source: Same as Fig. 7.1.

7.5. Sources of innovation in franchise organisations

Identification of the sources of innovation in franchise organisations was the next important stage of research. Both the franchisors and franchisees frequently stressed the needs of customers as a source of innovation – 61% and 72% of respondents (Fig. 7.13) – it is quite interesting and positive result. In further analysis one highlights another sources of innovation indicated by the donors and recipients – contacts with enterprises within the network – 38% and 42% of the responses. Employees and management of company are the second and the most important factor declared by franchisors (40%). This is crucial due to the fact that the franchisor is the organiser and coordinator of the network, so its employees are involved in the creation and implementation of innovations in the company and in the entire franchise system. In contrast, the franchisees more often pointed to the competition as a source of innovation in the company (47%).

Figure 7.13. Sources of innovation in a franchise company in %

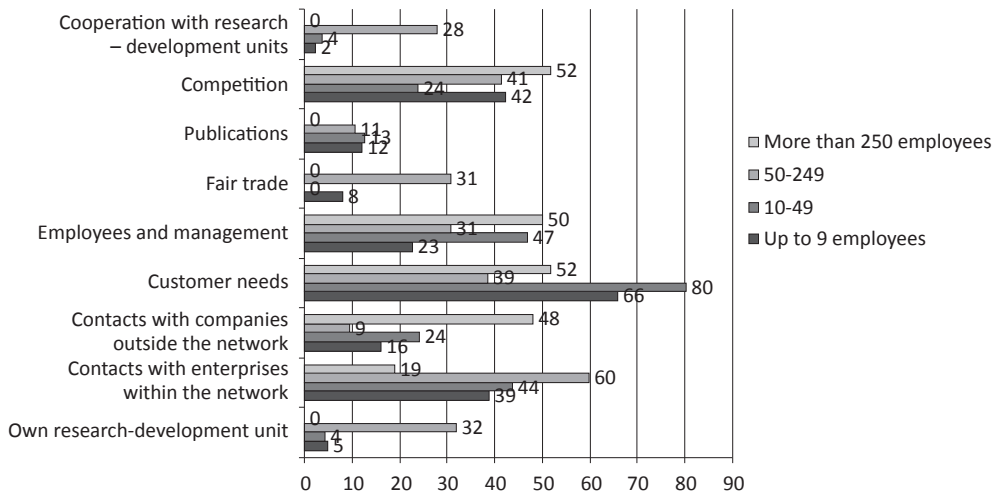


Source: Same as Fig. 7.1.

Own research and development unit was indicated only by 14% of franchisors and 4% of franchisees. Research showed that cooperation with research-development units is significant only for 7% of franchisors and 4% of franchisees. Thus, knowledge and experience of specialised entities is rarely used in the franchise. On the basis of obtained results one can conclude that there is also scope for greater use of contacts with enterprises within the network in order to create innovation in the franchise.

One should also mention the relations occurring between the sources of innovation in franchise companies, and the number of employees in the company (Fig. 7.14).

Figure 7.14. Sources of innovation in franchise companies depending on the number of employees in %



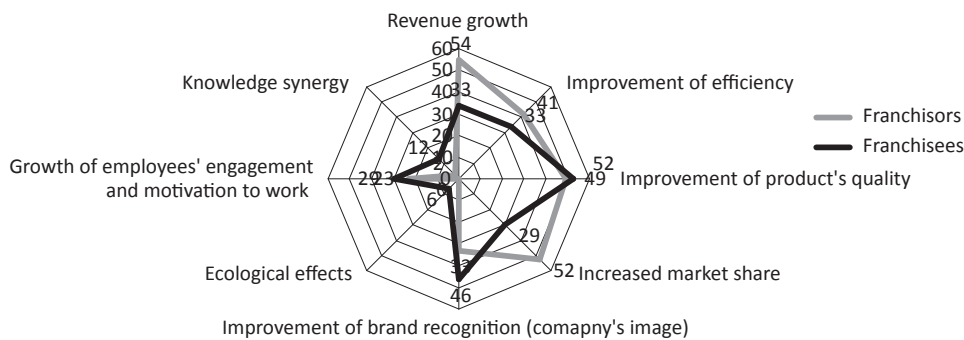
Source: Same as Fig. 7.1.

Sources of innovation defined as: customer needs (respectively 66% and 52%) and competition (respectively 42% and 52%) are extremely important for micro and large companies. Customer needs are significant for small businesses (80%). However, business contacts within the network are the most frequently stressed source of innovation (60%) by medium-sized companies. It is interesting that own R&D unit and cooperation with R&D units are most often reported by respondents from medium-sized enterprises (respectively 32% and 28%). In contrast, contacts with companies from outside the network are substantial only for large companies (48% of responses). The study also showed that medium-sized enterprises more often indicated fair trades than the others (31%).

7.6. Benefits of implementing innovations in franchise companies

A further analysis of the research focuses on the benefits of implementing innovations in franchise organisations (Fig. 7.15). Increased revenues (54%), increased market share (52%), improved product quality (49%), as the results of implementing innovation are very important for franchisors.

Figure 7.15. The benefits of implementing innovation in franchise organisations in %



Source: Same as Fig. 7.1.

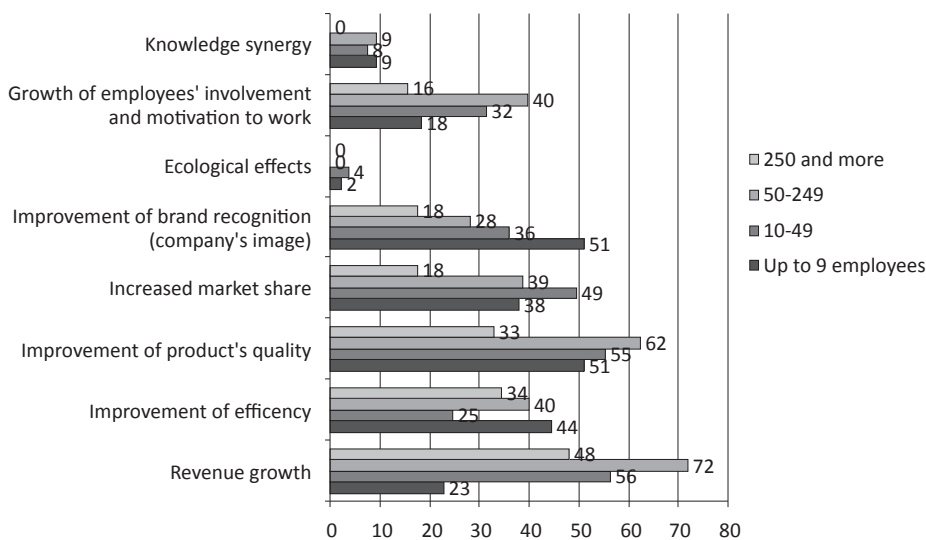
Knowledge synergy (2%) and ecological effects (0%) were the least frequently indicated by respondents. The results also highlighted that the implementation of innovations did not cause the growth of employees' engagement and their motivation (23% of franchisors).

Participants of the network, franchisees, most often pointed to the improvement of product quality (52%) and brand recognition (46%), as a result of the implementation of innovations. From the distribution of responses results that these factors are more

significant for franchisees than for franchisors. The growth of employees' involvement and motivation (29%) are meaningful to franchisees. Based on these data one can say that particularly an increase in revenues (33%) was indicated more frequently by franchisors than by franchisees. The study also showed that the franchisees appreciated importance of synergy of knowledge as the benefit of innovation more than the franchisors.

Some differences in the significance of these benefits, depending on the size of the enterprise are noticeable in the study (Fig. 7.16). For micro enterprises, the benefits of implementing innovations were focused on such improvements as: quality of products (51%) and brand recognition (51%). It is important to stress out that the group of these companies are turning their attention to the improvement of the image of the company. The revenue growth was most important for the other companies. The study also showed that the improvement of product's quality was significant for small enterprises (55%). From the distribution of responses resulted that medium-sized enterprises indicated the improvement of the product's quality (62%) and most often among other companies pointed to the growth of employees' involvement and their motivation (40%). However, large companies declared the improvement of efficiency (34%) and product's quality (33%) as benefits of implementing innovation. Worth noting is the fact that only 8% of the surveyed companies stressed the synergy of knowledge, and 3% – ecological effects. Thus, from the point of view of the franchise organisations, they are not essential benefits that occur after the implementation of innovations.

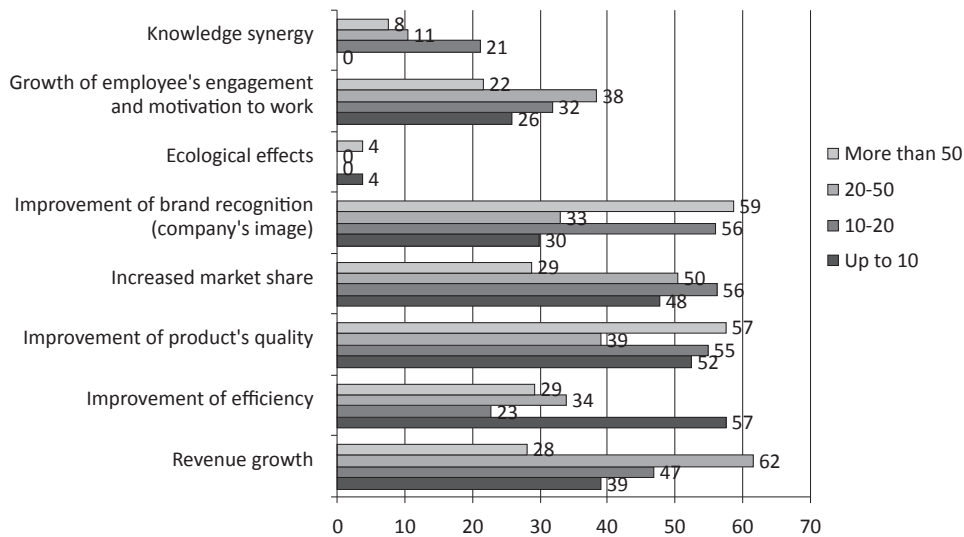
Figure 7.16. The benefits of the implementation of innovation in franchise companies depending on the number of employees in %



Source: Same as Fig. 7.1.

By analysing research one can identify the benefits of implementing innovation depending on the size of the network to which analysed company belongs (Fig. 7.17). The presented results show that the improvement of the efficiency (57%) was important for small networks, while increased market share (56%) and improvement of brand awareness (56%) was essential for networks of 10 to 20 participants. Medium-sized companies pointed to the growth in revenues (62%) and large ones indicated the improvement of brand recognition (59%) and product's quality (57%).

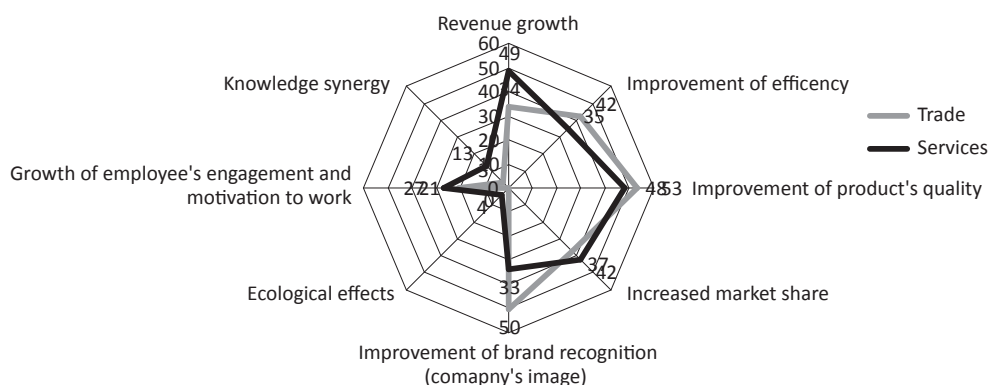
Figure 7.17. Benefits of implementing innovation in franchise companies depending on the network's size in %



Source: Same as Fig. 7.1.

It is worth mentioning the relations occurring between the benefits of the implementation of the innovation and the business sector (Fig. 7.18). Companies operating in trade sector frequently indicated the improvement of the quality of products (53%) and brand recognition (50%). In contrast, the importance of revenue growth (49%) and improvement of product's quality (48%) as benefits of implementing innovation in franchise companies were often emphasised by the service sector. It should also be noted that service companies more often than commercial ones pointed to the synergy of knowledge (13%) and ecological effects (4%).

Figure 7.18. The benefits of implementing innovation in franchise companies depending on the business sector in %



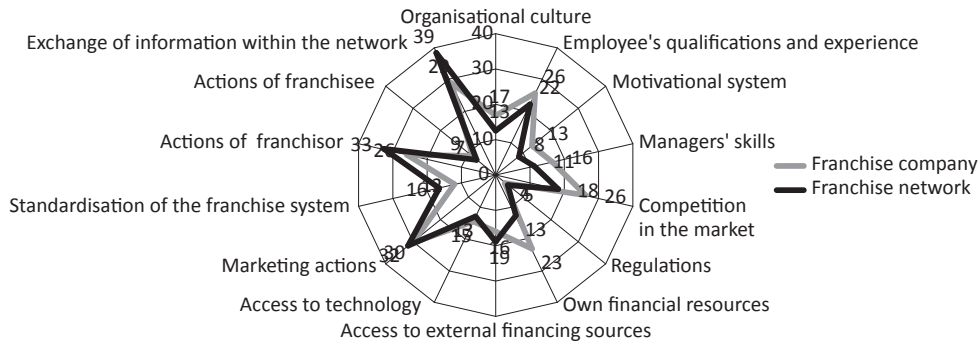
Source: Same as Fig. 7.1.

7.7. Factors encouraging and limiting innovative activity of franchise organisations

Another stage of the research study was aimed at determining the factors encouraging and limiting the innovative activity of enterprises and franchise networks. The factors were presented and respondents were asked to indicate the ones that were encouraging or limiting the implementation of innovation in organisations. Due to the broad spectrum of responses, the categories relating directly to the franchise are most important. However all categories were analysed, but in the presentation of results one focused on the most significant outcomes.

First, the analysis of overall responses regarding factors that encourage innovative activity in relation to franchise businesses and network in which they operate were presented below (Fig. 7.19). The results showed that marketing (30%), the exchange of information between the franchisor and the franchisee (29%), staff's qualifications and experience (26%), competition in the market (26%) and franchisor's actions (26%) were indicated by franchises. The above mentioned factors are a driving force of innovation in franchise organisations. Only 9% of respondents stressed the franchisee's actions, as a factor that stimulates innovation. Thus, they are not the stimulus of innovative activity in enterprises operating in franchises. This means that the respondents do not believe that the franchisees can contribute to creating innovation in franchises.

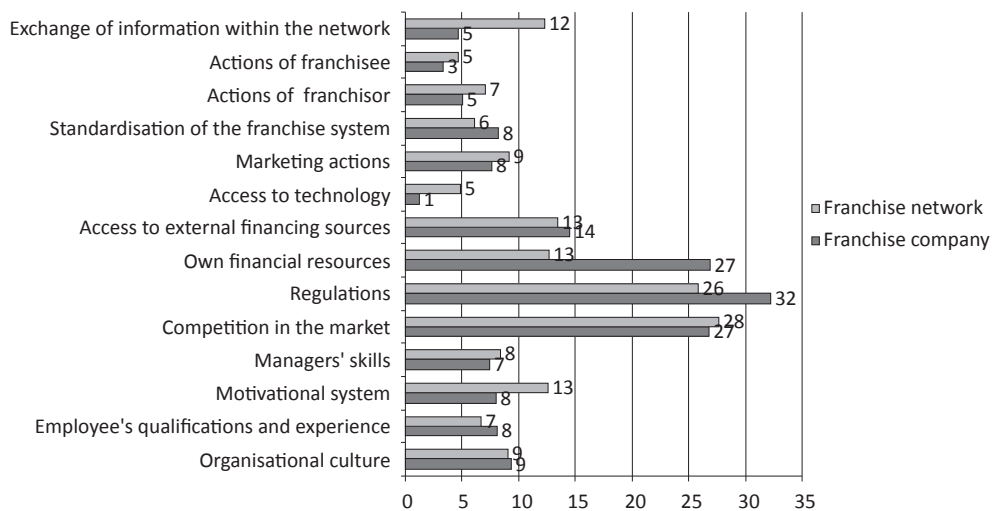
Figure 7.19. Factors encouraging innovative activity of enterprises and franchise networks in %



Source: Same as Fig. 7.1.

What's more, it was important to recognise the importance of individual factors and their impact on innovative activity in the franchise (Fig. 7.20). First, the respondents referring to the companies indicated primarily limiting factors such as: regulations (32%), competition in the market (27%) and their own financial resources (27%). On the other hand, they declared the same factors limiting the creation and implementation of innovations taking into account the network in which they operate. One can conclude that regulations, competition in the market and a lack of funds are barriers to innovation in the franchise.

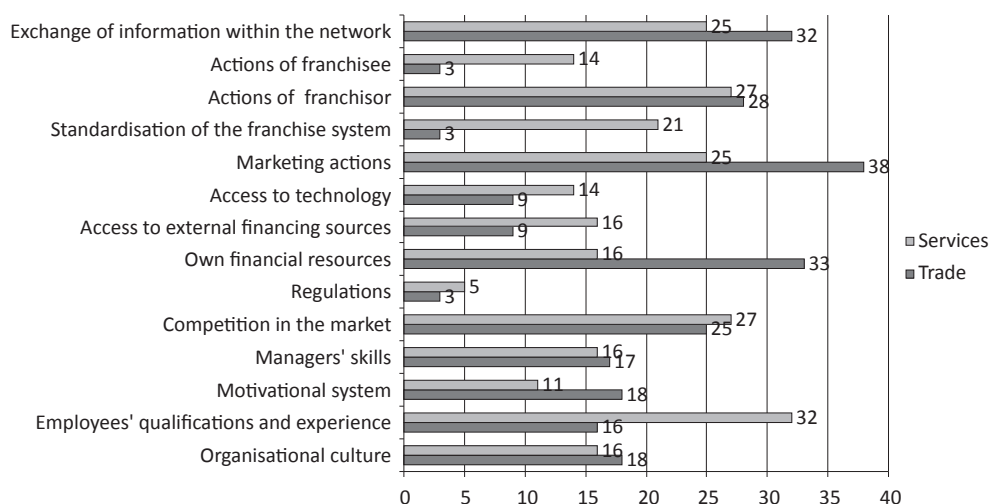
Figure 7.20. Factors limiting innovative activity of enterprises and franchise networks in %



Source: Same as Fig. 7.1.

According to the study of factors encouraging innovative activity of franchise companies, one focuses on the analysis due to the business sector (Fig. 7.21). The distribution of responses shows that the following factors: marketing (38%), own financial resources (33%) and the exchange of information within the network (32%) were the most important factors for the trade companies. The results highlighted that companies operating in the service sector pointed to the staff's qualifications and experience (32%), competition in the market (27%) and actions of the franchisor (27%) as factors stimulating the innovation process. When comparing responses of trade enterprises to service ones, one can notice that own capital and marketing are significant factors for the trade sector. In the service sector more attention is paid to qualified employees and the actions of the franchisor, although not to such an extent as to effectively activate in this way the innovative activity of franchise companies.

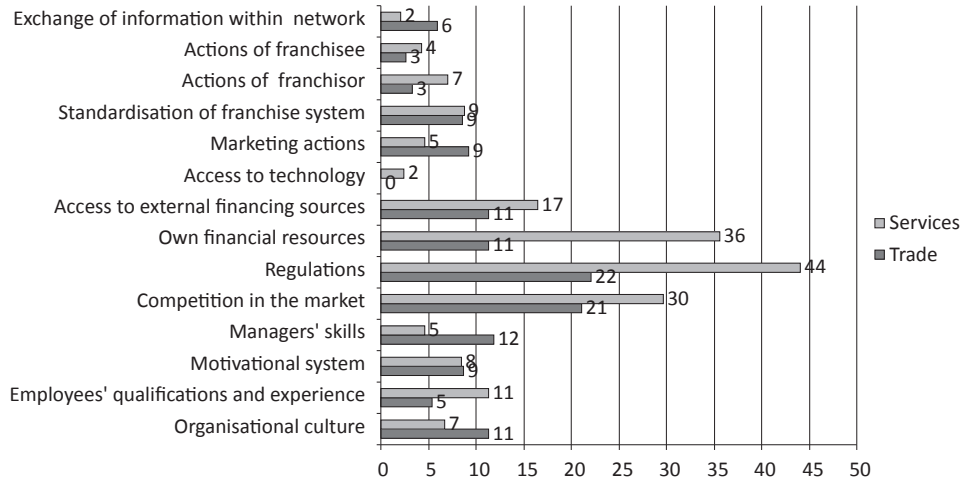
Figure 7.21. Factors encouraging the innovative activity of franchise organisations depending on the type of business in %



Source: Same as Fig. 7.1.

On the other hand, from the point of view of the factors limiting the innovative activity of the franchise companies depending on the sector in which they operate, one should distinguish that both trade and service companies pointed to regulations (respectively – 22% and 44%) and competition in the market (respectively – 21% and 30%) (Fig. 7.22). Only service companies greatly indicated own financial resources (36%), as a factor limiting innovation in the franchise. In contrast, trade companies to a greater extent pointed to the managers' skills (12%), as a category limiting the creation of innovation in franchise companies.

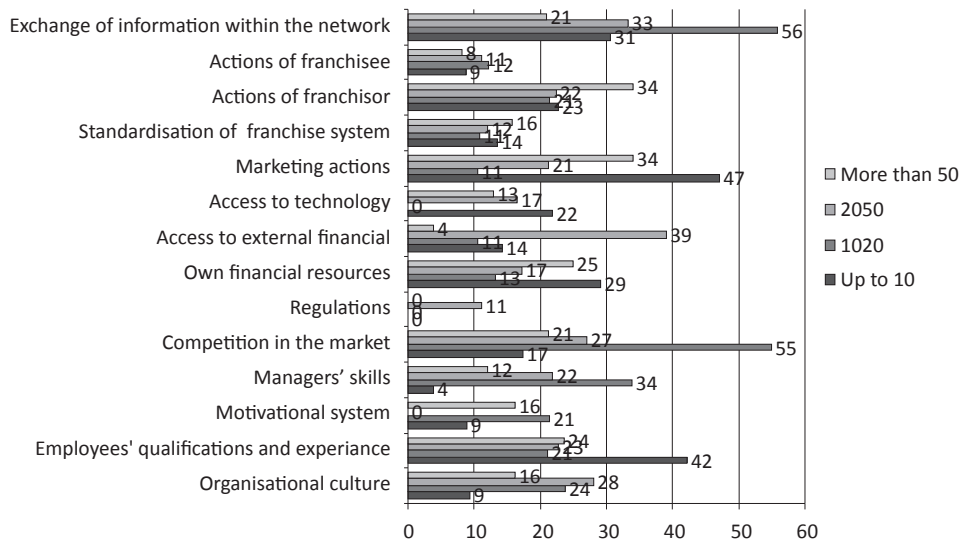
Figure 7.22. Factors limiting the innovative activity of franchise organisations depending on the type of business in %



Source: Same as Fig. 7.1.

It is worth pausing to consider that the analysis of the importance of individual factors encouraging innovative activity in terms of network's size, to which the company belongs, plays significant role in the study (Fig. 7.23). The obtained data show that for small networks, marketing actions (47%), the competences of employees (42%) and the exchange of knowledge and experience within the network (31%) are extremely important factors.

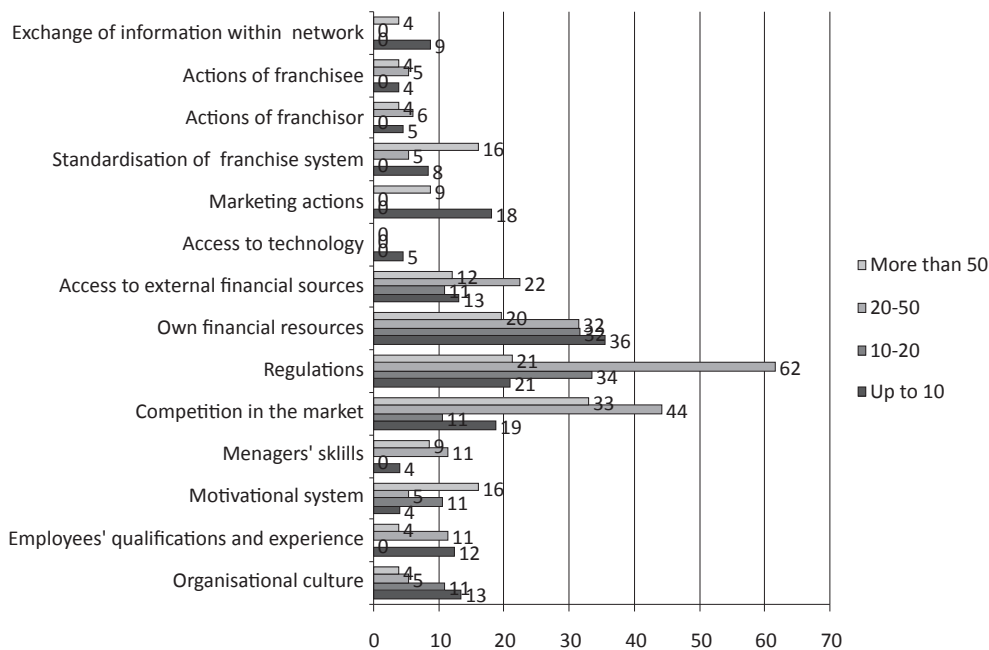
Figure 7.23. Factors encouraging the innovative activity of franchise organisations depending on the network's size in %



Source: Same as Fig. 7.1.

It is worth mentioning that these organisations are in the stage of growth, so creation of the greatest possible growth potential based on the limited financial and human resources is important for them. Employees were essential only for small networks. In contrast, the average size networks (from 10 to 20 participants) indicated competition in the market (55%) and the exchange of knowledge within the network (56%) as factors stimulating innovation. The findings suggest that representatives of medium-sized networks to the greatest extent pointed to the importance of the exchange of information between the franchisor and the franchisees. Sequentially, important is the fact that the larger networks (from 20 to 50 participants) perceive access to external sources of financing (39%) and knowledge (33%) as stimulating factors. The possibility of obtaining financial resources plays crucial role for them in comparison to members from other networks. Based on these data, one can conclude that respondents representing large networks (over 50 participants) indicated such factors as: marketing (34%) and franchisor's actions (34%).

Figure 7.24. Factors limiting the innovative activity of franchise organisations depending on the network's size in %



Source: Same as Fig. 7.1

In the following analysis, the factors limiting an innovative activity depending on the network's size were presented (Fig. 7.24). Interestingly, regulations

were a distinguishing negative factor for networks of all sizes. Furthermore, own financial resources, lack of capital allowing for the creation and implementation of innovations were significant for small, medium and large (up to 50 participants) networks. If we have a closer look, we discover that competition in the market was the next negative factor (44%) in networks of more than 20 participants and marketing actions (18%) were a limiting factor among small networks. On the other hand, from the point of view of large networks, it is worth considering that standardisation of the franchise system, as a limiting factor of innovation, was indicated by the large networks. This is due to the fact that large networks want to implement innovation, but it is difficult for them to introduce innovative solutions due to the standardisation of the franchise system and a unified concept of running the system.

7.8. Summary

The presented research shows that innovation plays an important role in franchise organisations. Innovations provide them with an important element contributing to improvement of products' quality and offer, but also they create new distribution channels and forms of communication. Most often, just a few innovations were implemented in franchises in the studied period 2007–2012. It is therefore an area that should be stimulated in franchise companies, in order to strengthen their competitive position in the market. The results of the study suggest that innovations concerning new products and new marketing actions, which include the development of new distribution channels, dominate. It is important from the point of view of the franchise, as it may be itself such an innovation for the enterprise (network's creator).

The study also showed that, in general innovative activity is significant in franchise networks. The following conclusions were drawn from the study: franchise companies implementing innovations are driven by motives that allow companies from this industry to improve the product' offer and quality. Furthermore, the participants of franchises are interested in new forms of sales by implementing innovation to their companies, which undoubtedly contributes to the improvement of their competitive position. It is also evidenced by the fact that when introducing innovations, franchise companies point to the benefits of their implementation, allowing the improvement of franchise system's brand recognition and image, increased market share and improvement of the quality of products offered in franchise networks.

The results allow us to conclude that in franchise networks and enterprises most commonly used innovations are connected with new products and creation of new marketing actions, as well as new distribution channels. Franchise organisations

introduce new products in the systems, which are the most commonly, used innovations in systems operating internationally. On the other hand, it has already been mentioned that the implementation of the franchise in the company, for the first time, is also a marketing innovation (in distribution channels).

Narrowing the scope, franchise companies stressed customer needs as sources of innovation and research assumptions pointed to contacts within the franchise network, as the genesis of the process of creating innovation. Contacts with network participants were the second largest source of innovation for respondents, taking into account franchise company and franchise network. It should be noted that in response to a question about the factors conducive to innovative activity, respondents frequently pointed to the exchange of information between the franchisor and the franchisees, as an incentive encouraging to stimulate and implement innovative activity. The results of the research suggest that, customer needs and exchange of information flowing from franchisor – network organiser to franchisee – network participant is the most important factor when implementing innovation in the franchise. In contrast, a wide exchange of knowledge between participants of networks operating in foreign markets, in countries with a high level of franchise relationship's development – has not been yet a stimulus for Polish companies to create and implement innovations in enterprises and franchises. From the point of view of innovation sources, franchise companies mainly perceive the origin of the implementation of innovative solutions in the needs of customers, while they do not properly appreciate the role of contacts with enterprises within the network, both horizontal and vertical. It is worth mentioning that knowledge synergy in franchise company could contribute to the creation of the competitive position of the entire franchise system and of all the participants of this relationship.

If we have a closer look, we can see that franchise network's creators, pointed to marketing and competencies of employees as factors conducive to innovation. In contrast, the franchisees indicated in particular actions of the franchisor and the exchange of information, as the main factors encouraging innovative activity of franchise enterprises. This is consistent with the essence of the franchise and the significant role of the organiser of the franchise system in creating the market position of the network. Human resources of franchisor are also a valuable source of innovation. However, knowledge is the most important and essential factor for franchisees. Know-how transferred by franchisor, is a main advantage of franchise's development model over conducting independent business activity by the entrepreneur.

On the basis of obtained results, it can be concluded that the respondents did not declare actions of franchisees, as a factor significantly influencing innovative activity, both in franchise company and the network in which it operates. This means that the respondents believe that franchisees generally do not contribute to creating the

innovation in the franchise. It is worth pausing to consider that franchisees are the driving force of implementing innovation strategy in countries with a franchise – established relationships in the economy. This results from specificity of the franchise, where franchisee receives a complete- standardised concept of doing business to implement it in his own franchise. He is an everyday executor of the concept of the franchisor, which allows him to see things that need an improvement, on the other hand, he has a permanent contact with customers and knows their preferences and needs. Furthermore, franchisees play crucial role in creating innovation in franchises abroad, they are the creators and originators of many modern and new solutions in the franchise. They have contact with the customer, and may also contribute by confronting their experience with knowledge of the franchise system, to create new solutions, products and technologies. Such solutions can be tested with the approval of the franchisor and implemented in the entire franchise system after being positively verified.

In the future franchise systems in Poland will be largely based on the model of open innovations (*open learning networks*), which will stimulate the exchange of information, knowledge and experiences between participants of the network, and thus contribute to building competitive advantage. Thus, franchisees will become a valuable source of information on possible innovative solutions, ready to implement the system, and their experiences can be discounted in the whole system.

From the observations of the relations in franchise organisations regarding innovative activities, one can draw general conclusions that the main objective of enterprises in the current economy is to create competitive advantages to achieve a better competitive position than other companies, franchise systems or networks. In order to achieve this, the best action one can take, is to connect at least two franchise systems in order to create a competitive advantage by achieving synergies based on individually developed concepts and business experiences. The cooperation of Mc Donald's fast food chains, Carrefour's discount system and BP petrol stations are Polish examples of such actions.

Narrowing the scope, the concept of innovation is essential in franchise relations. It is apparent that there are no sudden or fundamental innovations in franchise systems implying transformation. Such significant as the new commercial concept – the first supermarket in 1957 or discount stores in the early 80's of the twentieth century. Innovation in the context of the franchise can be described as a progressive innovation or regular modernisation consisting primarily of improvements to existing processes, daily operations, programs reducing costs, and to more efficient logistics processes¹. It's hard to find revolutionary innovative solutions related to franchise

¹ H.P. Liebmann, T. Foscht, T. Angerer, *Innovation in Retailing: Gradual or radical innovations of business*, "The European Retail Digest" 2003, no. 37, p. 55–60.

systems, due to the nature of the franchise relationship. Most frequently they rely on upgraded products or the introduction of a new product. Rarely one is considering introducing franchise in an enterprise and treating it as a new distribution channel. Analysing innovations in franchises, one should also point out the fact that innovations are rather gradual than radical. Often innovations in franchise relationships are implemented on the market, while originally coming from other countries or other 'non-franchise' networks or from other sectors of the economy.

In the future, the franchisors should look for new concepts, product offers, ways to provide services and to introduce changes in the stage of creating, organising, and testing of the franchise system, and not during the existence of the franchise relationship, because it is difficult for franchisees to adopt to changes in franchise systems during 'franchisor-franchisee' cooperation. This applies especially to radical changes and processes relating to the principles of functioning of the franchise system. It is easier for potential franchisees to enter into the new system and use the innovations than to implement radical changes in the franchise cooperation. Innovation management in franchise can be difficult when the network has already been functioning. It is important to underline that franchisee is an independent entity obliged to run a franchise unit in accordance with the guidelines of the franchisor, and these guidelines and rules are given at the beginning of their cooperation. As time passes it is harder to make changes within the franchise system. Then one should update the franchise's operating manual, and even then the changes may meet with resistance of franchisees, and thus with limited effect of innovation. On the one hand, franchisors must create innovations and implement them in the system, on the other hand, they have to convince franchisees to the validity of new ideas. Especially, if their implementation requires from employees the involvement of resources to upgrade the unit or make changes imposed by the franchisor. In this case having its own units by the franchisor, that can be treated like testing facilities of new innovations and of consumer's reactions to them is very important. If the innovations are successful they might be eventually implemented in the entire network.

To sum up, innovations in franchises are associated with implementing a new concept, product, or service and are intended to improve the relations of franchise system with its ultimate customers. In contrast, innovations related to the network organisation are intended for improving the franchisor – franchisee relationships. This approach has a dual character in relation to consumers and franchisees, because the franchisor has two types of customers: the final consumers and franchisees. The level of contractual regulations between a franchisor and a franchisee in terms of intellectual property, the benefits for the cooperating parties and other conditions of implementing innovations are also important.

It is apparent that the creation of complex solutions and delivery of innovative concepts to consumers through franchise companies will allow to create needs and preferences of customers, which in turn will lead to increase of competitive advantage of these systems.

Bibliography

Liebmann H.P., Foscht T., Angerer T., *Innovation in Retailing: Gradual or radical innovations of business*, "The European Retail Digest" 2003, no. 37.