

## Innovation in Food Franchise Chains in Brazil: The Giraffas and Trendfoods Cases

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### ABSTRACT

Brazil presents revenues of some US\$30 billion with almost 72,000 units franchised by 1,380 chains, 90% of which are totally Brazilian, which accounts for some 600,000 direct jobs and an estimate of almost 2 billion indirect jobs. The food chain segment is relevant in franchising markets, and turns out to be the most representative number of chains in Brazil with 21% of all chains that adopt franchising. However, despite being an important sector in economic terms and a type of venture that has increasingly attracted entrepreneurs, Brazilian franchising still needs deeper scientific research. Thus, the goal of this paper is to analyze and discuss the process of innovations in franchise companies, based on organizational innovation. To that end, we will examine four aspects previously defined as innovation drivers: (i) the professionalization of the franchisor, (ii) the management of relationships with franchisees, (iii) the performance of franchisees with entrepreneurial profiles and (iv) the role of knowledge management. Therefore we use a multiple-case study involving two important franchising food chains in Brazil: the Giraffas and the Trendfoods Group, which comprises the following chains: China in Box, Gendai, Domburi, Owan and Brevità. The results reveal that: (i) the franchisor's professionalization, demonstrated by an intense concern with the development of the human resources that exist in the franchise chain, better-qualified professionals will enjoy conditions allowing them to participate more actively in their tasks, and while new competences are generated, organizational or product innovations. (ii) the franchisor-franchisee relationship, in the case of the Giraffas, it was possible to observe the strategic weight of the franchisor in the generation of innovations in partnership with its suppliers. As for the Trendfoods Group, franchisor credits to relationships with its franchisees, attributing to them part of the innovations (30%) that appear in its chain. (iii) the entrepreneurial role within the franchising model is questionable, the first limitation franchisees would face in imagining themselves to be entrepreneurial would be the franchisor's strategically determined standardization. In the case of the Giraffas, it was evidenced that the chain is preoccupied with having franchisees able to implement the innovations created by the franchisor. Thus, the participation of the Trendfoods franchisees is relevant, and they are responsible for some 30% of the innovations. (iv) Knowledge management, both at the Giraffas chain and the Trendfoods Group, the circle of informal communication among franchisees fosters the exchange of information.

## INTRODUCTION

The franchising system is based on a contractual relationship referring to a franchise which is developed in two parts: franchisor and franchisee. Thus, franchising is an alternative to diversification that can be considered a cooperative strategy whereby firms disperse risks and share competences. This relationship involves the transaction of a series of tangible and intangible resources. The franchisor is responsible for supporting the establishment of a new franchised unit, including training, supplying products, and developing financial and marketing plans. The franchisee is responsible for trading the products and services established by the franchisor (Gillis, 2007; Shane, 2005; Combs & Ketchen, 1999; Mahoney & Pandian, 1992).

In recent years, entrepreneurs have demonstrated a growing interest in franchising, which is an alternative for entrepreneurs willing to establish themselves with consolidated brands and know-how, thereby reducing the uncertainties of starting a business. Other benefits can also arise from franchising, like gains of scale due to greater technological access enabled by the franchisor, greater facility to obtain financing to expand the venture, and less expenditure on resources to monitor and control the units. In many cases, the advantages of the franchising system can be considered superior to those of independent businesses, mainly because the franchising systems offers entrepreneurs a model of partnership management, in which there is a constant exchange of information and innovative practices within the markets where the franchising chains operates (Shane, 2005; Shane & Hoy, 1996).

Data about the world franchising market demonstrate that the United States dominates the sector internationally, with over 760,000 franchised units, yielding 18 million jobs and moving US\$1.5 trillion per year in the economy (IFA, 2008; Dant, 2008). Brazil presents revenues of some US\$30 billion with almost 72,000 units franchised by 1,380 chains, 90% of which are totally Brazilian, which accounts for some 600,000 direct jobs and an estimate of almost 2 billion indirect jobs. Growth rates of franchising companies command attention due to the increasing adoption of this business model. Between 2007 and 2008, there was a growth in revenue (20%), new franchising chains (10%) and the number of franchised units (15%). The segment of food chain is relevant in franchising markets and represents the biggest number of chains in Brazil with 21% of all chains that adopt franchising and generate more than US\$ 6 billion (Melo & Andreassi, 2010; ABF, 2009).

However, despite being an important sector in economic terms and a type of venture that has increasingly attracted entrepreneurs, Brazilian franchising still needs deeper scientific research. A recent study attests to the importance of scientific research on this topic at the national and international levels, revealing the need for thorough studies related to this sector (Melo & Andreassi, 2010).

Particularly, we understand that, in discussing the competition among firms and the generation of competitive advantages, it is important to highlight the role played by innovation. Addressing innovation in franchising is extremely relevant given the competitive environments in which these companies operate. Kaufamn and Eroglu (1998), Dyer and Singh (1998), Bradach (1997), and Castrogiovanni et al. (1993) emphasize the importance of innovation in franchising chains, in particular reminding one that franchisees can be seen as important sources of innovation in chains, but that they require from franchisors mechanisms of governance so that these innovations can be enjoyed by various franchisees, thereby increasing competitive advantages and avoiding chains stagnation.

The process of innovation in a company goes beyond R&D investments; it covers a complexity of organisational process and interactions among several agents in local, national and even global levels. These interactions occur among individuals and corporations that share knowledge which will be decisive for a generation of innovations (Andreassi & Sbragia, 2002). They involve technological, sociological and economical interactions, becoming your

success fruit of several aspects involved in the business model, and not only of few tools and managerial perspectives (Barañano, 2005). Then, the set of knowledge and abilities in a firm can be denominated as “innovative capacity”, that it translates in the internal potential for the generation of new ideas, to identify market opportunities and to implement innovations (Hii & Neely, 2000). Moreover, the debate promoted by Melo, Andreassi and Oliveira Jr. (2009), in which they discussed the resources and competences necessary for a generation of innovations in franchise companies, is instrumental for the verifications we seek in this investigation.

Thus, the goal of this paper is to analyze and discuss the *process of innovation in franchise companies, based on organizational innovation*. To that end, we will examine four aspects previously defined as drivers that contribute to innovation: (i) the professionalization of the franchisor, (ii) the management of relationships with franchisees, (iii) the performance of franchisees with entrepreneurial profiles and (iv) the role of knowledge management. The term “driver” is meant in this paper as a management framework that can contribute to the process of innovation, which means each driver corresponds to specific business factors that will add elements to the innovation process. These factors will be described ahead in this paper. Hence, we use a multiple-case study involving two important franchising food chains in Brazil: the Giraffas chains and the Trendfoods Group, which comprises the following chains: China in Box, Gendai, Domburi, Owan and Brevità.

Initially, this paper treats a theoretical development based on drivers, which contribute to the innovation process, applied in franchising. Later, the methodological aspects involving the information debated in the following step are explained, and both cases are presented. Finally, the main critical issues involved in this study are debated.

## **2. THEORETICAL FRAMEWORK**

### **2.1. Management Professionalization in Franchising**

Intangible resources can contain a series of components able to generate innovation’s competitive advantages in franchising chains. The franchise is responsible to implement many attributes and innovations created by the franchisor. It means the quality standards defined by the franchisor and practices followed by the franchisee in its local markets. Moreover, it is worth underscoring the franchisor’s development of human resources. The franchisor shall provide, primarily, training to the franchisee and its workers so the franchisee can ensure high-quality patterns in client service to implement new practices (Sorenson & Sorensen, 2001; Windsperger & Dant, 2006).

Thus, all of the chain’s knowledge, including the skills developed over the years to select franchisees, the layout of franchising companies, products and the strength of the brand fit into the category of intangible resources that can be improved with new practices. The development of this knowledge generates the franchise’s know-how, which can help reduce costs and improve service quality, thereby becoming a source of competitive advantage, as it allows firms to develop particular and valuable competences for their chains to generate innovations (Barney, 1991; Castrogiovanni et al., 2006).

These intangible resources are hard to imitate, due to the fact that they integrate a set of practices, whose access is not restricted to a few people, in most cases, but which are attributed to and function by way of many agents, like franchisors, franchisees and workers of franchising chains, which leads to a complexity (Polanyi, 1962; Windsperger & Dant, 2006).

Thus, a managerial stance is of great relevance in the search for competitive advantage, given the inserted capacity to understand and choose which attributes and competences organizations should be developing to readily adapt to emerging opportunities and to bring new techniques. The lack of a competent managerial body can compromise the maintenance of the differentials obtained (Barney, 1991; Prahalad & Hamel, 1990). In the

case of franchising chains, many managerial assignments fall upon the franchisor, which takes on the position of chain manager. The franchisee will be saddled with the responsibility of local management, a responsibility which requires the franchisee to possess specific competences in order to manage its workers.

Thus, we can fit franchisors into the “top management team,” which should have the market and management knowledge needed to stimulate innovations, particularly when the franchisors are composed of heterogeneous teams. It is worth emphasizing the importance of the experience these franchising executives bring to the coordination of franchisees, experience which enables them to generate superior chain performance and innovations. Therefore, the decisions made by this group of executives will allow a better coordination of the resources among the franchising chain (Combs & Ketchen, 1999; Conner & Prahalad, 1996; Teece et al., 1997; Schilling & Steensma, 2002; Amit & Schoemaker, 1993).

## 2.2. Relationship Management in Franchising

Relationships among firms are considered relational resources, which are added to strategic resources and skills developed by franchisors and franchisees in their daily operations. These relationships allow a higher exchange of resources, competences and knowledge, strengthening the alliance among the agents involved, and ultimately generating innovations in the franchise chain. It is important for franchisors to develop these relationships in order that the chain, under their management, establish patterns of superior performance (Gillis, 2007; Dyer & Singh, 1998).

The relational perspective suggests that the strengthening of relationships can lead to a decrease in opportunism, an increase in the aggregated values arising from innovations by franchisees and an increase in standardization, which reduces operational variability (Dant & Gundlach, 1998; Dyer & Singh, 1998). Nevertheless, the commitment in these relationships and the trust invested by the client and other stakeholders become the key points to the relationships' success. This commitment and trust derive from (i) the provision of superior resources and solutions vs. those of other competitors, (ii) the maintenance of senior corporate values common to these partnerships, (iii) effective communication based on market knowledge and on the constant evaluation of these partnerships, and (iv) the avoidance of opportunistic maneuvers that will not provide competitive advantages because of their malevolent character. Additionally, managing relations requires that an organization give up any imposing attitude vis-à-vis the market and that it enforces its ability to address the circumstances of the groups involved (Morgan & Hunt, 1994).

Over time, learning derived from these relations will provide improved clarity about which resources should be combined, generating more significant new business opportunities for the groups involved. Studies show that relations built over time generate competitive advantages among the firms involved and are hard for competitors to imitate (Dyer & Singh, 1998; Walker et al., 1997).

These relational resources help to capture innovations from the franchisees and to disseminate them throughout the chain. There are two types of relational resources that apply to franchising. The first, “knowledge-sharing routines,” deals with standards that allow for regular interaction among members of the franchise and transfer, recombine or even generate specific resources. This type of relational resource involves regional consultants being sent by franchisors to franchisees to support the dissemination of news in local, regional and national meetings. The second type of relational resource deals with the use of “governance mechanisms”. These mechanisms help guarantee the enforcement of agreements signed by the chain's members, minimize transaction costs, and help to increase the value of innovation among franchisees (Dyer & Singh, 1998; Bradach, 1997).

Trust is, in turn, a key factor in allowing franchisees to have more autonomy and in allowing franchisors to introduce well-accepted changes into the franchising chain, primarily changes in routines, the adoption of innovations, the initiation of new promotions and also product- and service-delivery alterations. The end result will be a greater number of innovations and faster processing of these innovations by the chain (Gillis, 2007; Dant & Gundlach, 1998; Kaufmann & Eroglu, 1998).

### **2.3. Entrepreneurship in Franchising and Knowledge Management**

The performance of franchisees as local entrepreneurs is highly important to franchising chains. Franchisees are intangible resources able to provide information to franchisors so the franchisors can supply their markets with adequate products and services, thereby generating innovation. This local performance fosters the emergence of innovations which, if the franchisors manage them properly, can be used by other franchisee in the same chain (Sorenson & Sorensen, 2001; Thompson, 1994; Bradach, 1997; Windsperger & Dant, 2006).

The importance of local adaptations by franchisees is highlighted here, given that the geographic dispersion of the franchising chain places it under specific conditions, in which the standards set by the franchisor need adjustments, due to specific demands from the local public. Standardized procedures are not sufficient for a better chain performance, and a diversification of these procedures is thus necessary. This diversification will occur as a result of the franchisee's entrepreneurial action. The exception is the case of homogeneous markets, where the franchisee's action is hardly determinant, since not many modifications to the franchisor's policies are necessary (Minkler, 1992; Kaufman & Eroglu, 1998; Sorenson & Sorensen, 2001).

It is worth underscoring that, unfortunately, many of the innovations franchisees develop are not communicated to the franchisor. Thus, franchisors must stimulate internal debate among franchisees, creating a good relationship that will generate a higher level of trust, which will in turn facilitate the identification and implementation of local adaptations (Bradach, 1997; Castrogiovanni et al., 2006; Sorenson & Sorensen, 2001).

The results obtained by Gassenheimer et al. (1996) show that proactive franchisees tend to worry about their relationships with other franchisees and with the franchisor. Thus, these entrepreneurial franchisees are more engaged in the exchange of knowledge and find themselves better positioned to incorporate innovations from other franchisees.

However, in order for these innovations to have a broader impact, franchisors should create mechanisms of knowledge management whereby innovations can be disseminated to the other franchised units under their responsibility. Knowledge management is able to codify local tacit knowledge and transform it into explicit knowledge, and in the case of franchising, to expand this knowledge as it moves to other franchised units (Nonaka, 1994; Nonaka & Takeuchi, 1995).

Senge's (1992) concept of "learning organization" can be used in the study of the relationship between franchisors and franchisees. A franchising chain will achieve better results through the participation of franchisees, which can bring improvements and innovations to the chain. Thus, knowledge management emerges as a choice in the search for innovations, generating modifications in routines, improvements in processes and the development of new patterns able to adapt to local needs, all of this arising from the exchange of experiences among involved stakeholders (Cyert & March, 1963; Argote et al., 1990; Sorenson & Sorensen, 2001).

To that end, knowledge management requires the development of human resources through more intensive training programs over the year, which can improve knowledge in a

franchising chain. This knowledge can be transferred in a number of ways, including telephone calls, meetings or coaching (Simonin, 1999).

Thus, franchisees that develop local innovations can disseminate these practices in regular meetings promoted by the franchising chain, passing these techniques on to franchisors from the outset so that the techniques can be implemented in other franchised units. In generating the ability to develop and disseminate innovative knowledge, the chain will have a stronger capacity to explore its local markets (Gillis, 2007; Bradach, 1997).

#### 2.4. Summary of the conceptual basis

Table 1 summarizes the authors and their innovation drivers discussed in this theoretical framework:

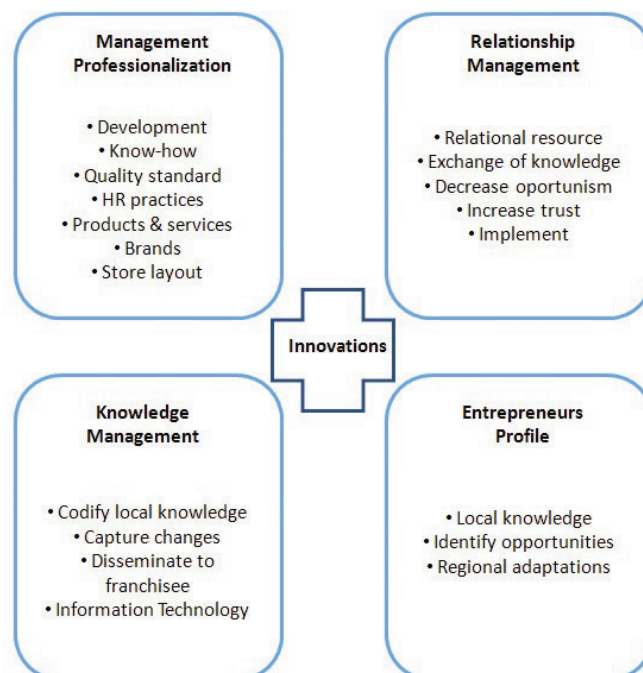
**Table 1: Authors and their Innovation Drivers**

<b>Management Professionalization</b>	<b>Relationship Management</b>	<b>Entrepreneurship</b>	<b>Knowledge Management</b>
Amit & Schoemaker (1993) Barney (1991) Castrogiovanni et al. (2006) Combs & Ketchen (1999) Conner & Prahalad (1996) Prahalad & Hamel (1990) Polanyi (1962) Schilling & Steensma (2002) Sorenson & Sorensen (2001) Teece et al. (1997) Windsperger & Dant (2006)	Bradach (1997) Dant & Gundlach (1998) Dyer & Singh (1998) Gillis (2007) Kaufmann & Eroglu (1998) Morgan & Hunt (1994) Walker et al. (1997)	Bradach (1997) Castrogiovanni et al. (2006) Gassenheimer et al. (1996) Kaufman & Eroglu (1998) Minkler (1992) Sorenson & Sorensen (2001) Thompson (1994) Windsperger & Dant (2006)	Argote et al. (1990) Bradach (1997) Cyert & March (1963) Gillis (2007) Nonaka (1994) Nonaka & Takeuchi (1995) Senge (1992) Simonin (1999) Sorenson & Sorensen (2001)

*Source: Authors*

Figure 1 summarizes the four perspectives debated above with its drivers and factors that contribute to innovations in franchise chains:

**Figure 1: Innovation Drivers and Factors**



*Source: Authors*

### 3. METHODOLOGY

#### 3.1. Research Methodology

Yin (2001) proposes five research strategies or methods: experiment, survey, archival analysis, history and case study. Each research strategy represents a different way of collecting and analyzing empirical data, each following its own logic. The author also presents three conditions that define any strategy to be adopted in research: a) the formation of a research question, b) the researcher's control over variables and c) the focus on historical or contemporary phenomena.

The use of multiple case studies is instrumental to replications and contrasts to the emerging theory. It also emphasizes if the phenomena occurs in more than one element, with deeper details. The major reason of the popularity of multiple case studies is due to the creation of an extension between empirical evidences and theoretical proposals. It emphasizes on developing constructs, measurements and testable theoretical questions, while it studies inductive cases (Eisenhardt, 1989; Eisenhardt & Graebner, 2007). Ergo, the case-study strategy is verified to be the most adequate in the present research on account of the:

**Type of research question:** the research question in this paper refers to the process of innovation in franchise companies, based on organizational innovation, a question adequate for the case-study method.

**Control over variables:** control of behavioral variables is not possible (this condition fits the strategies of historical research and case study).

**Emphasis on contemporary events:** the topic addresses a contemporary aspect, the innovation-generation process being the subject of little academic research in franchising. Besides, the qualitative case study is the best choice for a research in which few information are known about a certain phenomenon.

#### 3.2. Institutions Surveyed

##### A) Giraffas

The first case studied in this paper is that of the franchising food business called Giraffas, a company that has stood out and been regarded as a model of successful Brazilian franchising. Among the certificates and prizes awarded by the Brazilian Franchising Association (ABF), this chain received multiple seals of "Excellence in Franchising" (2003, 2004, 2005, 2006, 2007, 2008 and 2009), as well as four "Top of Mind" prizes (2003, 2004, 2005 and 2007), awarded by the Jornal de Brasília.

The first restaurant was inaugurated in 1981 in the city of Brasília. Ten years later, after having consolidated 7 units of their own, the owners decided to adopt the franchising model to expand the business. After adopting this system in 1991, the Giraffas chain recently reached a total of 297 franchised units across twenty-two Brazilian states and in the Federal District of Brasília. Before the end of 2009, the chain is expected to reach 330 franchised units (GIRAFFAS, 2009).

##### B) Trendfoods

The Trendfoods Group comprises the franchised units China in Box, Gendai, Domburi, Owan and Brevità, in the food sector and its performance mainly occurs through franchising fast-food, delivery and restaurant units. Details about each of these franchised units follow.

Among the group's brands, **China in Box** is perhaps the best known by the Brazilian population, given its innovative strategy for delivering Chinese food; its current model incorporates restaurants with traditional delivery services. This chain, founded in 1992 with the first store opened in the district of Moema in São Paulo, currently has 136 stores in twenty-two states and sixty-six cities of Brazil.

Another important brand in Brazilian franchising, which also belongs to the Trendfoods Group, is **Gendai**. Its first shop opened the same year as the first China in Box, at the Morumbi Mall in the city of São Paulo. The proposal in establishing Gendai was that it would be a store of Japanese products outside the traditional commercial area, concentrating its sales of these Japanese products in the district of Liberdade, in downtown São Paulo. In 1994, an idea emerged to offer Japanese fast food. In 1996, the franchising system was adopted as a business-expansion strategy. This chain today has 19 franchised units in the states of São Paulo, Minas Gerais, Rio de Janeiro, Ceará and in the Federal District.

For their part, **Domburi** franchised units are located exclusively inside shopping malls, based on the Japanese fast-food model. Today, there are 4 franchised units located in heavy-traffic shopping malls in the city of São Paulo, including Aricanduva, ABC Plaza, D and the Tatuapé Subway. Consumers basically comprise middle- and lower-middle-class persons (C and D) (Domburi, 2009).

The **Owan** chain focuses more broadly on the Eastern culinary style, enhancing its menu with products from Japanese, Chinese and Thai cuisine. This chain's three types of franchised units are located in sophisticated shopping malls in the city of São Paulo, such as the Morumbi, Villa Lobos and the Bourbon. Most consumers in these restaurants belong to the upper and upper-middle classes (A and B) (Owan, 2009).

The fifth franchising chain belonging to the Trendfoods Group is **Brevità**, specializing in Italian cuisine, with 41 franchised units in the states of São Paulo, Rio de Janeiro and Mato Grosso do Sul. Most of these stores are located in commercial sites in the streets, as opposed to shopping malls. They offer high-level client service in both their restaurants and their food-delivery service (Brevità, 2009).

### 3.3. Data Collection Procedures

The data collection process in case studies is more complex than in other research strategies. Its main advantage consists of using different research sources in documents and records from archives, interviews, direct observation, participant observation and physical artifacts (Yin, 2001, p. 105). The biggest benefit from the use of direct data-collection sources is the possibility of developing convergent research lines to investigate the same phenomenon, through different techniques. Thus, the validity of the construct is reinforced, insofar as several sources supply various evaluations of the same phenomenon (Yin, 2001, p. 121).

The data-collection process initially used involved a survey of secondary data, references available in the academic literature and in newspapers, magazines, catalogues, company websites, etc. Secondly, for the formulation of the case study, data collected from primary sources were surveyed, directly with the franchisors surveyed by these authors. In both cases, people providing information filled executive positions, as we understand they are more proper to explain strategic questions involved in innovation processes.

To choose what food franchise chain should participate of this study, we consult the Guide of Franchising (PEGN, 2009), which lists the best franchise chains in each segment. In this ranking 58 food franchising chains have been listed, from which 20 have been asked if they would like to take part in the present study. We received the confirmation of two chains: Giraffas (3<sup>th</sup> in the rank) and China in Box (11<sup>th</sup> in the rank). Both chains are associated to ABF (Brazilian Franchising Association) and got the seal "Excellence in Franchising", granted by ABF. As China in Box does part of one franchising group (Trendfoods), we understand that this particular research will be richer in details analysis as the Trendfoods chain.

Interviews lasted on average one hour and thirty minutes, and were conducted during April and May of 2009 in the city of São Paulo, in the offices of these companies. A structured questionnaire was used, mainly with discursive questions about the drivers that

contribute to innovation in franchise companies, based on organizational innovation, through the professionalization of the franchisor, the management of relationships with franchisees, the performance of franchisees with entrepreneurial profiles, and the role of knowledge management.

#### **4. CASE STUDIES: GIRAFFAS & TRENDFOODS**

##### **4.1. Professionalization in Chain Management**

###### **A) Giraffas**

The franchisor's professionalized management structure indicates the treatment given to organizational innovations in its chain. The test used for selecting franchisees shows that the Giraffas chain has a clear perception of the desired profile for a franchisee. The Giraffas seeks franchisees with both initiative to resolve common operational setbacks at their points-of-sales and leadership skills to control their employees. This is very useful when the franchisor needs to implement innovations in the chain.

It is important to bear in mind that a partnership between franchisees and franchisor is central to business and management, given that it is a franchising system, and that the chain under study adopts standardized actions for all of its franchised units. Candidate selection is a vital part because if franchisees with the adequate profile are chosen, the franchisor will more easily implement the policies and innovations championed for the chain.

After the selection phase, the management provides a set of training programs at the company's main office, including a 15-day training programs addressing operational issues in franchised outlets already-established within the chain. Moreover, the Giraffas chain has built a partnership with the private entity of public interest SEBRAE through its EMPRETEC program, aimed at developing franchisees' entrepreneurial behavior and business administration techniques.

In addition to that, field consultants assist franchisees in their operation, thereby supporting compliance with the chain standards and the adoption of new rules and innovations established by the franchisor.

The program training with suppliers is offered for the franchisor's employees and cover topics such as: information systems, new product specifications and procedures. Thus, both franchisees and their employees are engaged in regular training for updating procedures and acquiring new knowledges and techniques, which are needed to a constant upgrade and to follow correctly the orientations provided by the franchisor, including innovations.

The average experience time of managerial body members and of main office's director is 10 years of involvement within the chain, which may generate signs of intense knowledge of the characteristics of the business they operate. Additionally, between 80% and 90% of the main office's employees hold a bachelor's degree and 30% have postgraduate degrees. A qualified and experienced management team can contribute to identify new trends in this business.

Franchisors see brand management as a strategic asset to its business. A marketing fund is managed in partnership with the Association of Franchisees, with joint decisions being made about the resources destined to advertising campaigns. To that end, 3% of the gross revenues and 20% of the revenues from royalties go to marketing actions. The result of this investment is brand development, which benefits the franchised units by providing greater media exposure for the Giraffas in events, sponsorships and commercials in TV networks.

The US\$ 10 million 2009 budget is being used to finance two big campaigns in open TV networks announcing the launch of new products, as well as in the continual presentation of commercials throughout the year, mainly in paid TV networks and in TV channels directed to children and adolescents. This sort of public has been receiving more and more attention in

the past years, as well as the continuous promotion of new products, e.g. children's characters creation.

The chain has tried to strengthen the brand among children by creating new dishes especially for this public. Other initiatives seek to establish the consumption of healthy foods by this public. As a consequence, the participation of children's dishes has grown as compared to the traditional snack line.

To improve the visual image of the franchising outlets, their design is renewed every five years. That encompasses not only the architecture, but also the equipment, most of which with technological components made in the United States. During the last months, the photoboards where products are exposed have been innovated to make them more appealing to consumers.

The Giraffas' franchisor has established a new product launch policy, according to which at least 10% of the annual sales must come from new products and based on the number of products released in the previous year. Right now, this rate is at 14%, i.e., in conformity with the new product policy set by the franchisor.

Besides that, geographic positioning software based on Brazil's population consumption profile associated with data from IBGE is being negotiated for implementation in the chain. Mechanisms of market intelligence can supply more accurate data to create strategies for the franchise chain, thereby improving the performance of the franchised units and getting accepted by the market, appropriated innovations already developed.

## **B) Trendfoods**

Trendfoods franchisors create a series of human-resource-development programs involving the franchised units' and main office's franchisees as well as their employees. This process is initiated by the training department, which identifies qualifications for each position in the franchise chain. In order to develop new practices and improve efficiency of process, franchisors conduct these training sessions continually, according to a timetable set for each target public.

The strategic perspective of human-resource-development policies resides in better clarifying with franchisees the guidelines the franchisor wishes to establish in the chain. Without training sessions and, consequently, the development of targeted employees involved in the franchising units, the chances of implementing new strategies would be hindered. Thus, this practice reveals a strategy that will allow the franchisee insertion into actions planned by the franchisor, enabling the franchisee to understand and facilitate the process of innovation in management.

Another issue involved concerning the professionalization of the franchising chain lies in the experience of the management body, which has an average experience of nine years. A significant portion of this group of managers built their careers in Trendfoods Group chains and was promoted to higher positions over the years. Thus, the continuity ensured by these employees, across different hierarchical levels, carries a thorough knowledge of the setbacks presented by the franchise chain, and the competences developed over time can become a competitive factor that increase the recognition of the new policies and innovations promoted by the chain.

Some 80% of the employees at the main office who work directly with the franchisors have higher education, and 50% of this group possesses at least one postgraduate degree. The Trendfoods Group has an incentive program aimed at improving the qualifications of its employees. In the case of employees who still do not have a bachelor degree, the franchisor awards scholarships connected with the activity the employee performs. This policy complements the professionalization of the employees at the main office who work directly with the chain's management, consequently, contribute more actively to identify new business opportunities in the franchise chain.

Innovation in the design of Trendfoods franchising units occurs regularly. In fact, the franchised units China in Box and Gendai are being adapted today. However, it is worth mentioning that such innovations, which seek to improve the franchised units' attractiveness to consumers, occur with some flexibility, with a deadline given to the franchisee to adapt his layout as established by the franchisor.

Another result of the policy of improving employees' qualifications that is worth emphasizing is the process of new product launch, in this case, new dishes. To be a part of the chain's official menu, products must be first tested in supermarkets. This process occurs in two ways: through a show called a "festival," and through "promotions." The festival of new products takes place twice a year. It is a way of testing new dishes, which will not necessarily become a part of the official menu. These dishes are advertised in stores through flyers and banners. The second way of testing the dishes is through promotions, which also occur usually twice a year and serve to test consumers' sensibility to the price of new dishes. Promotions follow the same criteria as the festival in their process of dissemination and authorization for the official menu.

Like design innovations, dish innovations are to some extent the result of improved employee and franchisee qualifications, because these employees manage to contribute more actively to the process of innovation through the new competences they develop.

## **4.2. Relationship management with franchisees**

### **A) Giraffas**

Because it triggers many discussions in the chains of franchised units, the relationship between franchisor and franchisee requires tolerance on both sides. In the case analyzed, the success of this management model is observed to require the alignment of a series of relationship practices so that innovations can be successfully implemented within the Giraffas chain. The particularities of the relationship between the franchisor and its franchisees will be now discussed.

The franchisor seeks to establish specific policies to support the partnership with its franchisees. Chief among them is the joint management of the marketing fund, which takes place through the Association of Franchisees, with the franchisor in managing the decision process so that they can benefit the entire franchise chain.

It is worth highlighting that the franchisor's core business is the management of the supply chain links with the franchisees, mainly based on brand development, without any functions related to production and management of factory units. In other words, innovation comes from these links, which are decentralized and controlled by the franchisor.

Another form of relationship practice is implemented by prioritizing franchisees from the Giraffas chain in the opening of new franchised units. New business opportunities explored are often offered to franchisees, which evidences the chain's policy of expanding its operations in partnership with franchisees already established within the chain. This practice shows that despite the chain's well-established principles for selection, the risks associated with recruiting new franchisees are minimized when new franchising outlets are first offered to franchisees already working within the chain. Thus, franchisees with proven competence to play specific roles at the Giraffas chain have priority in the opening of new franchised units.

Part of this synergic relationship can be credited to the continual support provided by the franchisor to its franchisees. In addition to that, a service known as "hidden client" verifies compliance with the chain's customer service standards. To control this outsourced service, an area consultant monitors sees that this service is correctly operated by both external agents and franchisees. Franchisees with a good evaluation are rewarded for following the guidelines set by the franchisor.

The real concern behind having good relationships with franchisees is not to foster

local innovations. What is intended is the establishment of trust in the guidelines set by the franchisor, in its management of innovation process. It is important that the role of the franchisees in the implementation of the strategies and innovations planned by the franchisor be recognized.

## **B) Trendfoods**

The principal benefits obtained by situating franchisees as business partners can be found in the local knowledge produced by these franchised units. It would be hard for the franchisor to obtain this diversity of experience should he not adopt the franchising model; besides that, the franchisees' experience assists in the franchisor's strategic management decisions. To make decisions, the franchisor takes into consideration aspects of management that can be shared by the entire chain or partially, by some franchising units. By and large, these factors are determined by the cultural and geographic proximity of various franchising units where the innovations will be implemented. It is worth keeping in mind that this is a system of franchising units in which all modifications must also be studied from the point of view of standardization and its variations.

The relationship between franchisor and franchisees relies on the support of external experts, such as quality auditing, which verifies compliance with the sanitation norms for each franchising unit and later sends the results to the franchisor, which will apply penalties against the franchisees that deviate from the established standards. It can create disturbance in the standards and threaten the outcome of new products that pass by the acceptance of the clients.

However, the strategic view of relationships with franchisees is based on the search for a stronger trust on both sides, and not on the control of the franchisees' operations. Control is realized more in the sense of support and assistance with to daily difficulties. From the moment the franchisor sees its franchisees as local strategic resources, the appearance of innovation and joint actions become more regular. The franchisor's understanding in the case of Trendfoods is that the historic franchising model, plastered in rigid norms and patterns, is not adequate for his business. The chain has increasingly sought a higher flexibility in the relationship with the franchisee enhancing partnerships and building long-lasting alliances for the success of the franchise chain that can stimulate local innovations by the franchisees.

Thus, the franchisor must promote an environment of interaction and proximity with the reality experienced by the franchisees, in order to reduce conflicts and, primarily, create an environment that fosters innovation among the members of the franchise chain. Good relationships with franchisees are defined by the presence of trust, e.g., being a franchisor open to accepting suggestions, which will generate shared innovations, according to the criteria already mentioned for their implementation. Thus, relationships have the capacity to foster innovation within the chains of franchising units, given the reciprocal nature between franchisor and franchisees.

## **4.3. Entrepreneurship and Knowledge management**

### **A) Giraffas**

In this discussion, a specific topic becomes necessary to emphasize the role played by the franchisees in the innovation process at the Giraffas chain. As mentioned above, the profile desired for a franchisee is that of an executor of the innovations and strategies devised by the franchisor. In order that these policies be successful, the participation of the franchisees is vital. It is not desirable that franchisees be away from the franchised units or that they acquire them with the sole finality of making an investment or having additional remuneration. Their participation and commitment are key factors.

However, for a new product to emerge from the participation of the franchisees, such innovation must be suitable for commercialization across the entire chain. Because it is a

chain based on uniformity, there is only one type of menu. This policy aims at establishing in the consumers' mind the products that can be equally found all across the chain, without alterations in taste or format, and through that be recognized by its standards. One such example is the sandwich called "Gringo", which became the third best sold product in its category. Often, however, innovations developed by franchisees concern new operational procedures for the franchised units, brought up by the Association of Franchisees or suggested in assemblies of franchisees.

Thus, a lot of the credit for the innovations developed at the Giraffas falls on the franchisor, which is in charge of the intensive development of new products in partnership with its suppliers. In order that these innovations be successful, it is fundamental that franchisees align their relationships.

The market intelligence and communication systems mentioned in the previous item are crucial for controlling operations. They do not necessarily aim to increase the debates on possible practices that may arise from the experience of the franchisees to generate innovation, but, mainly, to provide a framework for the franchisor to advice its franchisees.

## **B) Trendfoods**

The traditional concept of the business entrepreneur, endowed with the characteristics such as proactivity and freedom of action, is also found among the franchisees of the Trendfoods group. However, these entrepreneurs have some limitations on their performance, given the parameters that guide the franchising system.

Franchisees with entrepreneurial profiles can be sources of innovation and value aggregation for the chain, and they are also responsible in part for a kind of learning that generates local innovations.

According to the franchisor interviewed, the desired profile of a franchisee is that of an "operational partner" that follows closely the franchising unit's operation, confronting problems and seeking to overcome them so that operations run smoothly, standards maintain continuity and the consumer's image of the brand is maintained. It is not desirable that franchisees have merely the profile of an investor. Although this type of profile can easily bring financial resources to the chain, in the long run it does not generate the desired level of sustainability for the business. Neither does the franchisor seek "managerial" profile that only receives commands, because a shared participation of franchisee and franchisor in decision making is essential.

With regard to local innovations, which emerge due to the franchisees' identification of opportunities, their difficulty lies mainly in their implementation. The franchisee cannot act independently, generating the modifications he finds convenient; he has to follow the franchisor's guidelines, thus avoiding fragmented standards in the franchising chain. For this reason, only part of these local innovations are implemented.

The process of implementation has an established flow. The first step is contact between the franchisee and the field consultant, or the franchisor. When addressing simple issues, the field consultant takes the issues to the main office. When addressing more complex issues, like the launch of a new product or a new advertising campaign, the decision falls directly to the board of directors.

The average time required for analysis, in the case of simpler innovations like regional dishes, is fifteen days. In the case of more radical innovations, like the establishment of new national dishes, the process can last a few months. These innovations are disseminated across the franchising chain, initially to neighboring regions. The next step, which encompasses the commercialization at the national level. It is worth mentioning that these guidelines also apply to marketing actions that emerge locally.

The process of knowledge exchange among franchisees occurs both through the franchise council, which provides space for discussion among the franchisees, and through meetings called by the franchisor. As mentioned, franchisees have access to innovations promoted by other franchisees, in many cases through the franchisor, which generates such implementations on a regional scale and, later, a national one. For its part, the role the franchisees play in the process of innovation is recognized: some 30% of the innovations that have appeared in the chain stem from franchisees' suggestions.

The mechanism of knowledge management occurs informally, and today, the chain is structuring an intranet. The strategy behind the use of the intranet is to foster a simpler communication channel among franchisees, so that franchisors can share their experiences with their franchising units. Moreover, an intranet takes on the role of promoting support of franchisees operating in nearby regions.

## FINAL CONSIDERATIONS

This case study enabled us to debate about the drivers that contribute to innovation in franchise companies, based on organizational innovation, while focusing on two large Brazilian food chains, Giraffas and Trendfoods Group. The variables analyzed here were: innovations resulting from the franchisor's professionalization, relationship management, entrepreneurial franchisees and knowledge management. However, the analysis of this case study requires further consideration, which follows below.

One of the practices aimed at improving the operation of the chain involves the resources resulting from the franchisor's **professionalization**, in this case demonstrated by an intense concern with the development of the human resources. Thus, better-qualified professionals will enjoy conditions allowing them to participate more actively in their tasks, and while new competences are generated, organizational or product innovations. In the Giraffas, the franchisor has created varied menus for adolescents kids, thereby broadening its range of consumers. It is worth emphasizing the franchisor's efforts with suppliers to generate innovations, which led to a renewal of 14% of the menu.

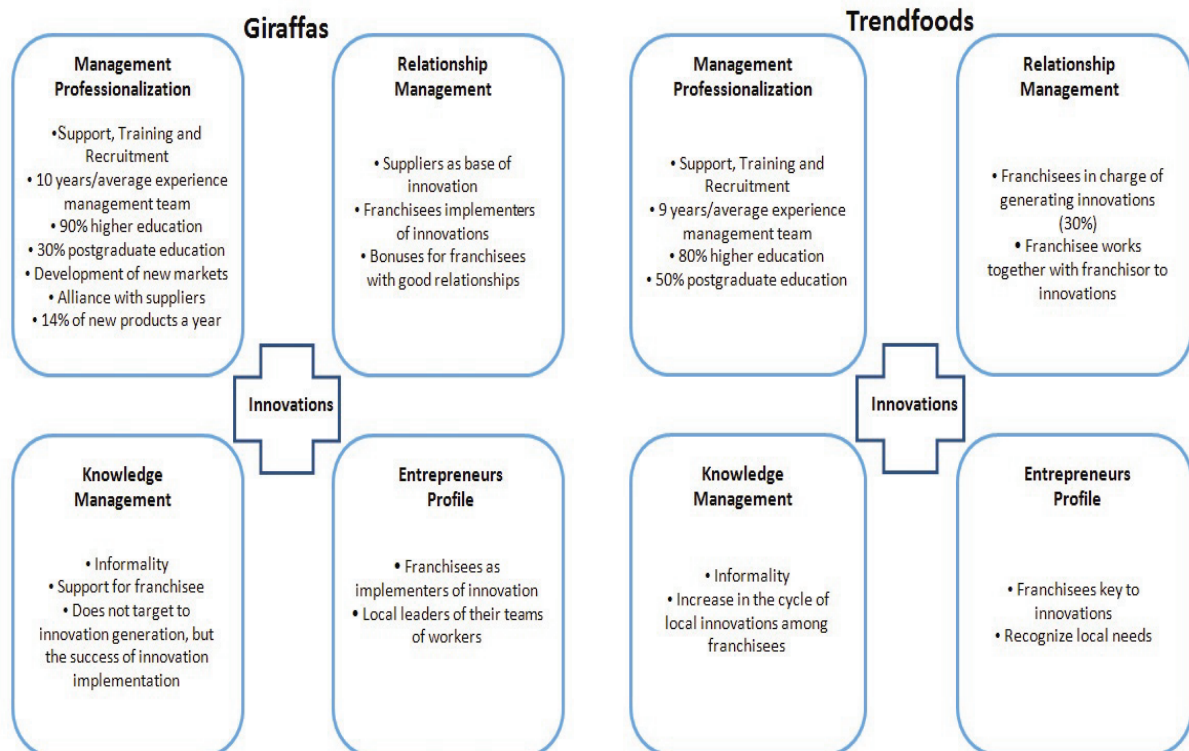
With regard to franchisor–franchisee **relationship**, in the case of the Giraffas, it was possible to observe the strategic weight of the franchisor in the generation of innovations in partnership with its suppliers. As for the Trendfoods Group attributes to franchisees part of the innovations (30%) that appear in its chain, through the local innovations. The franchisor is responsible for adapting them and for making decisions about how to implement these innovations.

With regard to the Giraffas, the **entrepreneurial** role it was evidenced that the chain is preoccupied with having franchisees able to implement the innovations created by the franchisor, which can be a source of competitive advantage. In turn, the Trendfoods Group is concerned about having participative franchisees, which are important for the generation of innovations in the franchise chain, as long as they are in line with the franchisor's rules. Thus, the participation of the Trendfoods Group franchisees is relevant, and they are responsible for some 30% of the innovations that have appeared in the chain.

**Knowledge management** is a tool organizations use that requires not only software instrumentalization, but also the use of management practices which enable participation at the various hierarchical levels. Both at the Giraffas chain and the Trendfoods Group, the circle of informal communication among franchisees fosters the exchange of information. The intranet at the Giraffas chain is expected to facilitate franchisor support and, consequently, the success of the innovations the franchisor develops with the suppliers. However, at the Trendfoods Group, although the franchisor is still implementing the intranet, it is expected that these experiences will be formalized and access facilitated for use by franchisees, besides helping foster innovations within the chain.

Figure 2 highlights the main issues discussed above involving the Giraffas and Trendfoods Group franchise chains:

**Figure 2: Highlights – Giraffas and Trendfoods**



*Source: Authors*

Finally, the **contributions** this paper provides to the academic milieu lie mainly in the study of Brazilian franchising units, given that discussions on this theme by Brazilian researchers are still scarce, as recently mentioned by scholars studying this theme, who highlight research opportunities in this area (Melo & Andreassi, 2010).

Particularly, concerning the process of innovations in franchised Brazilian companies, this case contributes by demonstrating the drivers that contribute to innovation, based on organizational innovation, through four perspectives already debated above.

However, some **limitations to this study** must be pointed out. First, we have proposed here a framework that involves drivers and factors in the franchising management, which can contribute to the innovation process, although it isn't a final and concluded debate. These drivers and factors help to identify some points that can be deeper analyzed in future studies. Additionally, as it is a study of multiple cases, verification would be required to assess how the innovation process behaves in other chains in order to generate comparable patterns and identify common factors as well as other particularities of each question. Such comparisons could assist researchers in the creation of models able to meet the needs of franchise chains with more consistency and analytical emphasis.

This paper ends with the **suggestion** that studies on franchising should be continued, particularly those related to the innovation process in chains of franchising units, through surveys involving Brazilian franchisors and franchisees. Then, to create statistical correlations between the variables listed in these papers to support a more accurate impact between the drivers and the factors in the franchising management to generate innovations. Another suggestion is to select more drivers that can contribute to the innovation process in franchise chains. Therefore, the innovation study can bring new knowledge to Brazilian chains, increasing their competitive edge in the national market, and also those markets already in the process of becoming international. By having more structured franchise chains, we hope

Brazilian franchising units will enjoy a greater and more consolidated presence in international markets.

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