Interactions among the factors underlying dynamic managerial capabilities in the creation of new products and services: evidence from franchise networks

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Abstract:

Many studies use the dynamic capabilities view, as the literature shows that such capabilities are essential for innovation. This work focuses on dynamic managerial capabilities to highlight the interactions among the three dimensions of dynamic managerial capabilities (managerial human capital, managerial social capital, and managerial cognition), as this aspect remains overlooked. Consequently, we analyse how the three dimensions interact with one another as firms innovate to develop new products or services in franchise networks. Our qualitative study is conducted in 17 French Franchise networks and is based on 24 interviews.

The results indicate that although the three dimensions are mobilised by managers, certain dimensions are interrelated with other dimensions, and two main types of dynamic capabilities are identified in franchise systems. The first type is based on intuition and knowledge transfer, while the second type is based on a rational analysis of data and knowledge recombination.

Keywords: Dynamic capabilities, innovation, franchise network, managerial dynamic capabilities

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INTRODUCTION

A well-established stream of studies has shown that dynamic capabilities increase companies' competitiveness and innovation (Teece *et al.*, 1997; Eisenhardt and Martin, 2000). According to the literature, dynamic capabilities (DC) can be viewed as processes embedded in organisations. However, other authors have also highlighted the existence of dynamic managerial capabilities, which explain heterogeneous decision making in companies. Dynamic managerial capabilities consist of the following three underlying factors: managerial human capital, managerial social capital and managerial cognition. The literature concerning dynamic capabilities has shown limited interest in the interactions among the three underlying factors of the concept (managerial human capital, managerial social capital and managerial cognition) and how they affect change/adaptation (Adner and Helfat, 2003). Furthermore, as managerial capabilities have been studied primarily in a traditional organisational context, their deployment in network forms of organisation, such as a franchise network, have been overlooked (Gillis *et al.,* 2020). Therefore, this work focuses on the development of managerial dynamic capabilities and the interactions among the three underlying factors during the development of new products/services in franchise networks.

Prior studies have demonstrated that franchisees represent a major source of innovative ideas in franchise networks due to their daily customer interactions (see, e.g., Cox and Mason, 2007). However, as franchisees are owned by independent business owners, there exists a risk of free-riding. Hence, franchisees take initiatives that harm the franchise's brand reputation. Recent studies have demonstrated that managerial capabilities that enhance collaboration between the franchisor and the franchisees lead to superior performance of franchise networks (Gillis *et al.*, 2020). These capabilities include knowledge sharing, standard operations and trust routines and are specific to the franchise network. To maintain their competitive advantage, franchise systems must renew their capabilities (Hussain *et al*., 2018) and develop DC to leverage their resources and capabilities in novel combinations. As several recent works note several options regarding the role of the governance and management in the deployment of DC, we opt for the framework proposed by Adner and Helfat (2003) to understand how managerial human capital, managerial social capital and managerial cognition interact with one another in the deployment of DC in franchise networks.

Hence, we interviewed 29 people working in 17 franchising networks. This work aims to enrich the dynamic managerial capability literature by applying this concept to the context of franchise networks and discovering the interactions among the underlying factors. This article is structured in four sections. The first section provides a literature review, the second section discusses the methodology, the third section presents the results and the fourth section provides a discussion of the results.

1. LITERATURE REVIEW: DYNAMIC CAPABILITIES AND INNOVATION

1.1. THE DYNAMIC CAPABILITY PERSPECTIVE

Academics have emphasised the importance of new product development in organisational change and renewal (Verona and Ravasi, 2003). However, the accumulation of valued resources is not sufficient to create a stable process regarding the management of innovation in a dynamic competitive environment (Teece, 2007; Teece *et al.*, 1997). Indeed, Teece (2007) noted that durable innovation requires resources that are not only difficult to imitate but also unique and difficult to replicate with respect to dynamic capabilities. Previous studies have highlighted the relationship between dynamic capabilities and innovation (e.g., Ambrosini, Bowman and Collier, 2009; Helfat *et al.*, 2007; Teece, 2007; Teece *et al.*, 1997). Thus, developing dynamic capabilities is essential for the survival and prosperity of companies (Wilden *et al.*, 2013) as they allow firms to anticipate technological evolution and adapt to innovate (Hill and Rothaermel, 2003).

Dynamic capabilities are rooted in the resource-based view (RBV), which explains the source of competitive advantage and how to maintain such an advantage over time (Barney, 1991). However, the RBV has often been criticised due to its tautological aspect and static approach (Priem and Butler, 2001) as it only focuses on the internal environment of companies (Teece *et al.*, 1997). Although Barney (1991) denied the tautological effect of the RBV, this author still admitted that empirical studies were needed (Depeyre, 2005). The dynamic capabilities approach extends the RBV by considering both the internal and external environments of companies (Eisenhardt and Martin, 2000). Dynamic capabilities were originally defined as *"the firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments*" (Teece *et al.*, 1997, p. 516). In addition, dynamic capabilities are sometimes characterised as processes (e.g., Eisenhardt and Martin 2000) or routines (Zollo and Winter, 2002) that could be "embedded" into an organisation over time that are used to reconfigure the resource base of the organisation by deleting resources or recombining old resources in a different manner (Sirmon and Hitt, 2003). Adner and Helfat (2003) stated that most research concerning dynamic capabilities focused on organisational factors that enable firms to adapt to change (e.g., Zollo and Winter, 2001; Zott, 2003) and defined the concept of dynamic managerial capabilities as "*the capabilities with which managers build, integrate, and reconfigure organisational resources and competences."* (Adner and Helfat, 2003, p. 1012). This definition extends the dynamic capabilities concept by focusing on the managerial component of dynamic capabilities (Helfat and Martin, 2015). The authors distinguished among the following three factors underlying dynamic managerial capabilities:

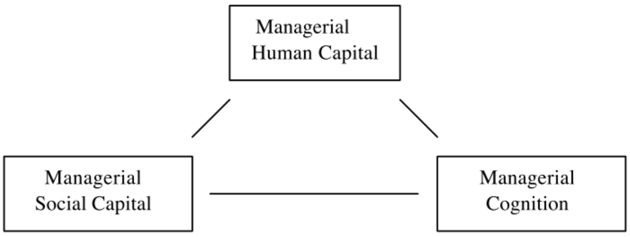
(1) **Managerial human capital** highlights the importance of education (learned skills) and previous professional experiences (Adner and Helfat, 2003). Indeed, managers develop

specific knowledge and skills through their different experiences, training and education (Helfat and Martin, 2014). Managerial human capital includes not only individual managers but also teams of managers (Martin, 2011), suggesting that dynamic managerial capabilities may involve multi-level and cross-level issues that need to be addressed (Helfat and Martin, 2014).

(2) **Managerial social capital** results from the social relationships (both formal and informal) of managers while accessing resources and transferring information. Interactions with formal and informal work relations may provide information that could be useful for detecting opportunities (Adner and Helfat, 2003).

(3) **Managerial cognition** refers to mental models and beliefs (also named "knowledge structures" Eggers and Kaplan, 2013), mental processes and emotions (Hodgkinson and Healey, 2001) used by managers in decision making. Indeed, managers face a large amount of various types of information. Knowledge structures influence managers in terms of their biases and heuristics used when anticipating market change or taking actions (Garbuio, King and Lovallo, 2011).

Figure 1: Dynamic Managerial Capabilities: Underlying Attributes (Adner and Helfat, 2003, p.25)



The three underpinning factors, i.e., managerial human capital, managerial social capital and managerial cognition are linked through a number of different factors (Ader and Helfat, 2003). As a result, the same experience may influence the three factors underpinning dynamic managerial capabilities, and each factor may further influence another factor (Helfat and Martin, 2014). For example, managerial cognition influences the development of human capital by modifying the search and absorption of information during work experience, training and education. Managerial cognition also impacts how managers use and interpret information (Helfat and Martin, 2014).

The theory of dynamic managerial capabilities states that managers who work in companies with superior dynamic managerial capabilities can adapt and change more successfully (Helfat and Martin, 2014). Moreover, most studies investigating the multiple dimensions underlying dynamic managerial capabilities did not assess the interactions among the different factors. As a result, we consider the study of the interactions among the three factors an interesting topic to address. Furthermore, DC have been studied, for the most part, in the context of stand-alone companies, and thus, there is a lack of understanding of their deployment in the context of franchises (Zimuto and Maritz, 2019). This context is particularly interesting as it could generate new insights on DC in network organisations, for which there are no or low authority relationships between managers and partners.

Managerial processes are at the origin of the creation of dynamic capabilities (Altintas, 2009). Numerous authors agree that dynamic capabilities emanate from managers. Indeed, managers play a crucial role in the reconfiguration of resources and competences (Adner and Helfat, 2003; Teece, 2007; Augier and Teece, 2008). Subsequently, dynamic capabilities are deployed and implemented in practice by managers according to their daily experiences with processes and their observations of the environment (Teece, 2007).

Few studies have investigated the three factors of managerial dynamic capabilities together and how they affect change within organisations. Moreover, strong dynamic capabilities are crucial for success, especially since innovative firms need to conquer a market or develop new products (Teece, 2012). As strong dynamic capabilities are essential for success, especially when innovation is critical, it is important to understand how the three factors underlying managerial dynamic capabilities interact and affect innovation through the development of new products/services.

1.2. Management capabilities in the Franchise network

This article focuses on a particular type of network organisation, namely, the franchise network. In addition to the embedded network of ties between the franchisor and franchisees, franchise networks support a standardised offering and uniform processes in the network (Watson and Dada, 2017). A paradox exists among innovation, continuous change and the essence of the franchise system, which is based on standardisation. Franchise networks develop due to the replication of a concept and outlets offering standardised products and/or services (Gorovaia, 2017). More precisely, franchising has been defined by the European Code of Ethics for Franchising as “a system of marketing goods and/or services and/or technology, which is based upon a close and ongoing collaboration between legally and financially separate and independent undertakings, the Franchisor and its individual Franchisees, whereby the Franchisor grants its individual Franchisee the right, and imposes the obligation, to conduct a business in accordance with the Franchisor's concept. The right entitles and compels the individual Franchisee, in exchange for a direct or indirect financial consideration, to use the Franchisor's trade name, and/or trade mark and/or service mark, know-how, business and technical methods, procedural system, and other industrial and/or intellectual property rights, supported by continuing provision of commercial and technical assistance, within the framework and for the term of a written franchise agreement, concluded between parties for this purpose". This definition highlights the importance of the relationship between the franchisor and franchisee, which is based on a close and ongoing collaboration (Perrigot *et al.*, 2017). The relationship between the franchisor and franchisees is based on a strong personal nature; even though this relationship is essentially a bilateral relationship, the collective dimension of the franchise network cannot be underestimated (Boulay and Chanut, 2010). Indeed, the franchise is a network comprising the franchisor, the franchisees and various partners. These actors all interact with one another and create a network. The franchisor and franchisee in the network are not only partners with complementary skills but also competitors for the distribution of profit and power (Ibid). However, a franchise network has to evolve on a regular basis to respond to different opportunities or threats in its environment (Ibid). As a consequence, franchisors have to invest on innovation and renew their concept to avoid the decline of the network (Allix-Desfautaux *et al.*, 2014).

Recent works on franchise have highlighted the role of management capabilities to deploy changes in the network and to facilitate its renewal (Gillis *et al.*, 2020). These capabilities are defined as "the main cognitive, behavioral, and organizational routines that enable a franchisor to achieve both standardization and adaptation in working with franchisees" (Gillis *et al.*, 20202, p. 5). Accordingly, they have been demonstrated to provide superior performance in the franchise system. Indeed, the structure of franchise networks provides an advantage in developing innovation as it allows access to diverse resources (Schilling and Thérin, 2006). Thus, franchisees are recognised as a source of knowledge because they know their local markets (Gorovaia, 2017). However, if franchisees have too much autonomy, they could adopt entrepreneurial behaviours, and the outcomes (such as their innovations) may not be advantageous for the network as they may lead to inconsistencies in the brand image (Dada and Watson, 2013). Three dimensions reflect the franchise management capabilities, namely, knowledge sharing routines, standard operating routines, and trust routines.

The knowledge-sharing routines dimension refers to innovation within franchise networks, suggesting that innovation can emerge from internal sources, such as the franchisor, franchisees, and owned units. In this case, management capabilities play a central role in the dissemination of new idea. Thus, managers and network consultants should encourage franchisees to provide new ideas and subsequently transmit those ideas to the head of the network (Cliquet and Nguyen, 2004). Indeed, as interactions with different types of partners are likely to facilitate the innovation process (Love *et al.*, 2011), management capabilities could foster those interactions.

The standard operating routines dimension addresses the coordination and standardisation within the network. Thus, procedures are important to ensure a consistent quality within the different units of the franchise system, and as such, managers are involved in developing and maintaining these procedures by training franchisees and communicating pertinent information regarding essential routines (Gillis *et al*., 2020).

Finally, routines that develop trust in the relationships between the franchisor and the franchisees have long been demonstrated as a source of competitive advantage for franchise networks (Chanut and Paché, 2011). These routines foster the ability of the network to adapt to changes in its environment by enabling mutual confidence that each partner's behaviours will have a beneficial impact on the network. Thus, franchisees trust in the capabilities of the franchisors to deploy a competitive strategy and franchisors trust the franchisees to incorporate successful local adaptations.

As the description of management capabilities is static, we lack an understanding of how those three dimensions evolve as the network adapts to changes in its environment. Consequently, we propose that the literature on managerial dynamic capabilities should enhance the understanding of changes in management capabilities within the franchise system.

1.3. Dynamic capabilities in the Franchise network

As franchise networks support autonomy and standardisation, managerial dynamic capabilities should be developed. To the best of our knowledge, papers examining the relationship between dynamic capabilities and franchising have focused on performance, but they did not identify the interactions among the attributes underlying dynamic managerial capabilities and how these interactions affect innovation in the franchise networks (El Akremi *et al.*, 2015).

However, Kor and Mesko (2013) demonstrate that managerial dynamic capabilities are context-specific, highlighting that franchise management probably requires specific DC aimed at building an infrastructure and supporting the network. Indeed, studies conducted within a franchise context, such as retailing, have examined the impact of network embeddedness and determined that it is linked to the social capital of the franchise manager and the development of DC in the franchise network (Frasquet *et al.*, 2018). Thus, managerial social capital is a relevant factor in understanding DC in franchise system.

Similarly, it has been demonstrated that innovation and creativity are shaped by the culture and diversity of experiences within the franchise system (Simon *et al.*, 2018). Thus, franchise systems can be differentiated on whether they foster a homogenous profile of managers and franchisees to extend their depth of specific knowledge or a diversity of previous experiences to foster the transfer of knowledge from one domain to the other. Thus, managerial human capital, which relates to the previous experiences and training of managers, is particularly relevant to the understanding of DC in the franchise system.

Finally, studies regarding the managerial social cognition of managers in the franchise system are sparse. However, Hoffman *et al.* (2011) note that franchise experts are using specific cognitive schemes, which they refer to as treasure maps, when making decisions. These treasure maps are comprised of memory artefacts that facilitate decision making. Although the three factors of managerial human, social and cognitive social capital have been examined separately in the various studies of the franchise system, they have not been formally related to DC and their interactions have been overlooked. Hence, we take on this challenge via a qualitative methodology.

2. METHODOLOGY

2.1. A QUALITATIVE DESIGN

Dynamic capabilities are often described as an “abstract concept or elusive black boxes” (Pavlou and El Sawy, 2011 p. 240). Since observing dynamic capabilities involves a complex process, we chose to use a qualitative approach in this research as qualitative data allow to identifying of the origin of a process and its progress when analysing the complex relationships of a phenomenon (Miles and Huberman, 1991). Thus, qualitative data enable the establishment of the connections between the origin of a phenomenon and the different stages of its evolution (Miles and Huberman, 1991). As a consequence, this method allows us to recreate the interactions among managerial human capital, managerial social capital and managerial cognition to understand how they affect innovation.

To conduct this research, we interviewed 17 franchise networks, including 29 semi-structured interviews with franchisors (20 interviews) and franchisees (9 interviews). The details of the French franchise networks and contacts were provided by the French Federation of Franchise. The interviews were conducted by phone or face-to-face (Tables 1 and 2). The interviews were recorded and, subsequently, fully transcribed. Interviews lasted, on average, 44 minutes. Semi-structured interviews were conducted following an interview guide, and the questions asked addressed innovations that had been implemented and deployed such that the outcome is known, namely, failure or dissemination throughout the network. We exclude events that are still ongoing from this research as their process is incomplete. Because this study focuses on managerial capabilities, franchisors were the primary targets of our interviews, as they are most often the ones overseeing the operations of the franchise.. The aim of the interviews is to cross-check information.

Given that we wanted to understand the interactions of the three underlying factors of dynamic managerial capabilities in the creation of new products and services, we asked the interviewees to detail the innovation process in their franchise network. While managers detailed the innovation process of the franchise, they also highlighted their role in the process, thus allowing us to detect the different factors presented in the interviews. To avoid retrospective bias, we asked the interviewees to describe a particular example of an innovation that was developed within the franchise system.

As the interviews focused primarily on the innovation process, the abilities of the managers where not discussed directly. The description of the process emphasised the impact of the manager as we asked them questions about their previous experiences and training (managerial human capital), their interactions within the network (managerial social capital) and their decision-making process (managerial cognition).

Table 1: Interviews conducted with franchisors

Franchise	Franchisor 1	Duration of the interview	Franchisor 2	Duration of the interview	Sector
F1	Director of the franchise	40'15			Leisure, Housing
F2	Director of the franchise	42'53			Leisure, Housing
F3	Director of the franchise	22'55			Services
F4	CEO	52'21	Director of the franchise	32’50	Services
F5	Franchise developer	29’51			Food
F6	Chief legal officer	41'59	Director of Partner Relations	30’46	Hotels

F7	Director-general	62'10			Services
F8	Franchise developer	40’19	Director of the franchise	26’25	Leisure, Housing
F9	Franchise developer	24’46			Food
F10	Franchise developer	18’33			Services
F11	CEO	40’51			Services
F12	CEO	34’02			Services
F13	Franchise developer	20’03			Services
F14	Director of the franchise	22’06			Services
F15	Director of buying	31’23			Services
F16	Director of buying	34’33			Services
F17	Director of franchise	36’26			Services

Table 2: Interviews conducted with franchisees

Franchise	Job title 1	Duration of the interview	Job title 2	Duration of the interview	Sector
F3	Franchisee	62’41			Services
F5	Franchisee	25’47	Franchisee	46’10	Food
F9	Franchisee	49’36			Food
F4	Franchisee	126’			
F2	Franchisee	83’			
F2	Franchisee	98’			
F11	Franchisees	88’			

Total: 29 interviews

First, we assess whether there are DC in the franchise system based on three criteria; specifically, the innovation process is replicated more than two times, the innovation process is new, and the outcome is deployed in several units of the franchise system.

We assess then the three factors of dynamic managerial capabilities, namely, managerial human capital, managerial social capital and cognition.

For each of these three dimensions, we identify the different types based on the literature review.

Category	Managerial human capital	Managerial social capital	Cognition
Definition	Previous expertise and training of managers	Social relationships between managers and members of the internal/external network	The manager's vision, rules and decision-making process
Example	"We found that people were leaving our home-care facilities and that was an economic problem". "I also try to do days like I did before because it's important to me to stay in the field, to know what it's like, how to sell the products..." "The idea came from thinking that there's a logic to offering services in a hotel apart from sleeping in a hotel".	"We meet every week to work on identifying what was going and work with a communication agency". "We've developed partnerships so we've been able to put in place a much more rigorous set of specifications".	vision; "If it's out of concept we refuse directly". "We automatically test". "...a very strong development that we sense in relation to the market".

Table 1: Content analysis of the data

With respect to managerial human capital, this dimension focuses on the education and prior professional experiences of the manager. As a result, we categorised those aspects of our interviews that related to manager education and expertise in the field/sector that he/she had developed overtime as managerial human capital, as it is through these elements that managers acquire new knowledge they can use in their professional life. We differentiated between depth of knowledge, which refers to the use of expertise and training in the franchise field and breadth of knowledge, which is associated with expertise and training in diverse industries and domains. The managerial social capital dimension is based on the relationships (both formal and informal) built overtime by the manager. These relationships allow access to resources and transfer information. As a result, areas and questions in the interview where the interviewees mentioned a partner and his/her involvement in the process or the idea of innovation are regarded as contributing to managerial social capital. We differentiate among relationships that with the franchisor's own units, with franchisees, with partners and with customers as these relationships reflect various levels of differentiation of embeddedness.

Cognition refers to mental processes, emotions, beliefs and mental models used by managers when making decisions. Accordingly visions, feelings, systematic actions, e.g., testing ideas before deployment, are all aspects of cognition. Indeed, the systematic actions appear to be rules by which the manager makes decisions. For example, an idea that is not directly related to the concept is eliminated; i.e., the manager does not further consider or examine the suggested idea. This is a systematic action employed by the manager when making executive decisions, and in this case, the decision is to reject the idea. We identify two types of decision-making, namely, reflexive and reflective. Reflexive decision making is a type of intuitive decision-making process that is based on heuristics, whereas reflective decision making is a process involving data gathering and selection for decision making.

2.2. Data analysis

To analyse the data from the interviews, we developed a list of codes based on our conceptual framework. Indeed, dynamic managerial capabilities draw upon the following set of three underlying factors: managerial cognition, managerial social capital, and managerial human capital (Adner and Helfat, 2003). These three factors were the starting point from which the list evolved over the course of the research. Additional codes that reflected the various levels of interactions, were included following the data collection (Miles and Huberman, 1991).We then compared the results of the different networks to identify existing patterns.

Table 3: List of codes used for the research

Definition	**Codes**	**Sub-codes**	**Verbatim quotes**
Managerial Human Capital	MHC	MHC-breadth of knowledge	“I have a rather unusual background so far from human resources because I'm an engineer by training; so, it has nothing to do with human resources.”
		MHC-depth of knowledge	“When you take a plane, when you take a train and even when you order, now you go on the internet, you book online. In the field of cleaning, it didn't exist. I was shocked to see that there is no online tool (...). There's everything to set up, and I can rely on my experience in this field there".
Managerial Social Capital	MSC	MSC-relationships inside the franchise’s network	“We have franchisees just about everywhere in France, and the franchisees can propose and be a source of change.”

Definition	Codes	Sub-codes	Verbatim quotes
		MSC-relationships with external partners	“We set up an insurance system with ***, where the centre is paid by the insurance for this change.”
Managerial Cognition	MC	MC-reflexive	“It's true that it's a very strong development that we sense in relation to the market"
		MC-reflective	“End customers in market research refused the mid-range; they still refuse the middle range.”
Levels of Interactions within the Franchise Network	LEVEL	LEVEL-units	“Test on my own units in the three centres we have; we always test everything before duplicating to make sure it's relevant.”
		LEVEL-franchisees	“So, we integrated it. We tested it on the advice of a franchisee who told us he had it and said try it, it's really good."
		LEVEL-partners	“We have developed partnerships. We have been able to put in place a much more rigorous set of specifications.”
		LEVEL-customers	“We also do customer surveys so every time a customer comes when he has the loyalty card, we have his e-mail, and we push the questionnaires.”

As stated in the literature review, innovations can emerge from the franchisor or franchisees in the franchise network. In this article, we decided to focus on the franchisor’s new ideas as they are the main trigger of the development of dynamic capabilities. Consequently, as our sample only includes innovations from franchisors, we did not observe any ideas provided by a franchisee that were disseminated at the network level in the interviews that were conducted.

3. RESULTS

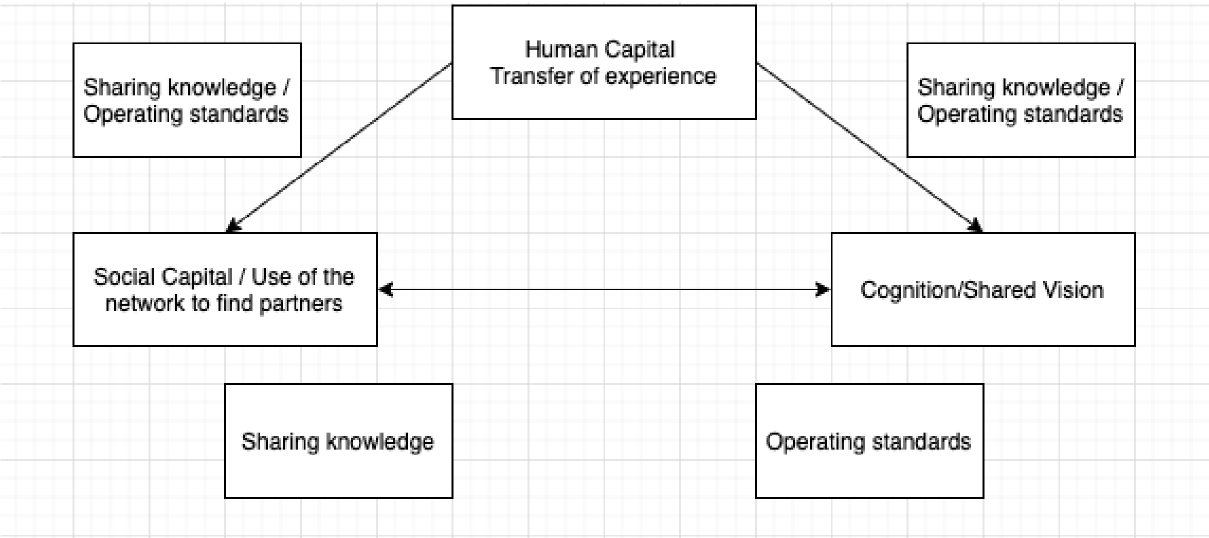
The analysis of the three factors underlying dynamic managerial capabilities led us to contextualise these factors within the franchise networks. First, we present the characteristics of management capabilities in the franchise network.

Indeed, the franchisors and franchisees are linked by a contract and are legally two distinct units who work closely with one another. The franchisor must motivate the franchisees to accomplish the objectives of the network. In the following example, a person previously in charge of the training in the network (now a franchisee) noted that, in his opinion, the content of the training was not the essential component. According to him, the essential aspect of the training and the role of the facilitator of the training was to motivate the participants so they would return to their franchise unit motivated and determined to achieve success and promote positivism in their franchises. Thus, the facilitator's role is to demonstrate the use of knowledge sharing and motivate franchisees through communication and training.

> *"I understood that the trainer's job is not really to bring content. They have to come back motivated and the only return on investment a franchisee saw when he sent someone to training was not that the guy came back with 12,000 action plans to set up, it was just that they came back motivated and asking, when's the next one (...)"* Franchisor from House and Leisure Sector

In other words, the main goal was not to have learned something but to return to the store and tell his franchisee "*I am re-energised! It was really good and cool."* This is a demonstration of the trust mechanism, as this type of exchange between the facilitator and the franchisee strengthen the relationship, especially if the facilitator succeeds in motivating the employee.

We identified two types of managerial dynamic capabilities. The first is characterised by a strong interaction among the transfer of experience (managerial human capital), managerial social capital and cognition.



This first type corresponds to knowledge/experience transfer from another sector of activity to the network. The following statement from a franchisor explains how a development manager introduced changes in a fitness franchise. Having had previous experience in the car industry where he worked with key accounts, he provided his address book and know-how to develop a new market for the franchise. In this way, the franchisor applied the sharing knowledge mechanisms to transfer his experience to the network.

> "*I brought a change of career from the car business. We were just interested in private individuals, not hotels, not firemen, not the army, so I brought this whole culture of professional accounts; that's what I brought."* Franchisor from the House and Leisure sector

This development manager used his previous contacts to extend the business of the new franchise, but he also hired someone with experiences in key accounts to support this new activity. In other words, the managers used their social networks but also added new resources and expanded the knowledge on key accounts in the franchise system to develop a new activity, i.e., a sharing knowledge mechanism.

> *"Then, I hired a young lady named ***. She had experience in key accounts in the industrial world."* Franchisor from the House and Leisure sector

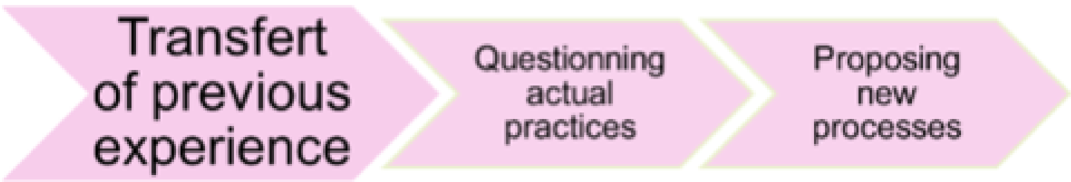
Even though cognition is not prominent in these two cases, the franchisor employs cognition to guide decision making. For example, every idea that is outside the concept is eliminated directly without further consideration. Another example is that many franchisors test the idea before implementing it throughout the network, thus resulting in the use of operating standards mechanisms.

Indeed, the franchisor may rely on his field expertise and his know-how in making decisions regarding new products or services. In another case, the franchisor used to work in the top management of an airline industry in which numerous procedures have to be followed. He also had leading-edge expertise in technology usage. When the franchisor left his prior position to assume this new position in a cleaning franchise, he questioned whether his experience could improve his new business.

> "*I use my knowledge of sales marketing, retail, and communication so I rely on my know-how (...) I use market studies and, then, at the same time, by asking the questions through the experience I have had myself."* Franchisor from the Service sector

This specifically describes how experience led to questioning the actual practices in the franchise. Hence, such experience enhanced the development of new practices to support standardisation in the franchise. In this case, we note the franchisor uses operating standards mechanisms represented by the use of market studies.

As a result, the source of new ideas in this case comes from franchisors



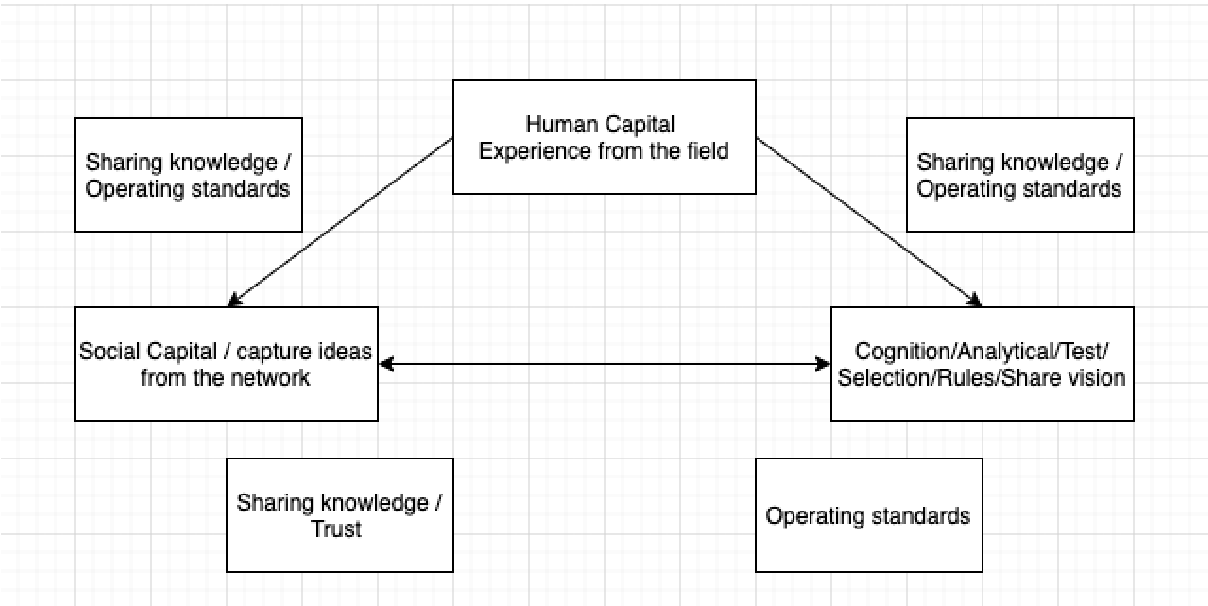
This cognition dimension the franchisor uses operating standards mechanisms in addition to the vision they share to test ideas before implementation,

> *"The great strength of having a mixed network, without asking the franchisees to take the risk, to be able to test a new product in our owned units, and then to see the outcome of the positive results, to extend it to the franchised network."* (Franchisor from the House and Leisure Sector)

With respect to the social capital factor of the managerial dynamic capabilities, the franchisor uses his network to find partners and other business opportunities. The following franchisors previously worked in the car industry and now develop key accounts for the new network for which he works. He did not hesitate to use the network of his previous position to develop key accounts for his franchise.

*“I first went to Paris at La Défense to introduce myself to the *** Group. I came back through the (Previous company) door. Being from Toulouse and knowing the Stadium, I managed to find the right person who could refer me. That was also a big change for the franchise.”* (Franchisor from the House and Leisure Sector)

The second type of managerial DC is characterised by strong interactions between experience from the field (managerial human capital) and managerial social capital. While the cognition



factor is evident, it is used less in this.

This result suggests that while franchisors of the networks rely primarily on their experiences (past and current) and social networks for the creation of new products and services, they emphasise less their cognitive abilities. Franchisors also seek new partners to promote their new ideas for products and services. Specifically, they try to find a partner who possesses the expertise necessary to develop the project. The following franchisor wanted to create a service for its hotels and needed a name, logo, etc. Hence, he reached out to several external partners to obtain as much feedback as possible to establish the service.

> *"We're always going to be happy with what we've created, so we're going to see an outside company, we've worked with our designers, but we've also done some sort of calls to architectural schools, with young designers, to get other feedback."* Franchisor in Hotel sector

Franchisors may also adopt opportunistic behaviours when a partner comes to them with an idea, as they then transfer that idea to their business.

> *"We now have outside partners which come to us to propose partnerships and commercial development."* Franchisor in the Service sector

As a result, due to the experiences (past and current) of the franchisor as well as the expertise of new staff and partners, the network is able to add resources to its stock. By doing so, the franchisor demonstrates the use of sharing knowledge mechanisms, while also exchanging information with partners to improve the franchise and trusting their expertise in the sector or idea they propose to the network.

With respect to the human capital factor, the franchisor relies on his expertise in the field to improve his business using operating standards mechanisms. As explained in the statement below, the franchisor worked in a temporary agency and noticed the network was engaging in an excessive amount of paperwork. As a result, he wanted to establish a digital platform to reduce the amount of paper.

> *"We are an employer of temporary workers and therefore we have to deal with a significant amount of contracts, time sheets, invoices, etc., which represent a significant*

part of the time spent in the agencies, so we have invested with our partners in order to dematerialize the entire administrative process." Franchisor in the Service sector

The results revealed no significant differences in the interactions among the underlying factors, type of innovation or size of social networks regarding the innovation of new products and/or services.

Discussion

Several works have highlighted the manager's role in refreshing, developing, and creating the firm's resource base (Adner and Helfat, 2003). Managers can reshape existing practices and routines in the organisation to enhance its abilities to change and adapt to external threats (Teece, 2016). However, the existing studies primarily focus on the context of organisations within a single unit. We bring new insights to this area by studying managerial dynamic capabilities in franchise networks. In such network systems, social capital plays a significant role by enabling both the emergence of innovations through knowledge transfer and the testing of those ideas in different units. Managers also face specific challenges as they seek to enhance both standardisation and change in the network. Indeed, the franchisor transfers specific knowledge to its franchisees to generate success in the franchised units (Gorovaia and Windsperwer, 2010). Thus, the franchisor can use multiple transfer mechanisms as highlighted not only in our results but also in the relevant literature on franchising. These transfer mechanisms include training, conferences, outlet visits, telephone calls, e-mails, etc. (Gorovaia and Windsperwer, 2010). Indeed, the value of the network is co-created with the actors of the organisation, whereby each actor brings knowledge and resources to the network and, thus, participates in the creation of value (Paswan *et al.*, 2014). Although the franchisors are the prime source of knowledge in the network (Ibid), the franchisees also play a key role as they must adapt to their local market and, thus, serve as a source of new innovations (Cox and Mason, 2007). Franchise systems represent a mix of knowledge transfer across different levels of the network, and each level possesses its own knowledge that can enrich the entire network. Indeed, the franchisor transfers knowledge to its franchisees, who duplicate the concept in their units (Gorovaia, 2017). However, knowledge sharing and transfer can come from various mechanisms at the managerial level.

Consequently, we emphasise two main trajectories of managerial dynamic capabilities. The first examines the correlation between experience and extended social capital. Specifically, the experiences of the different managers differentiate the various aspects of the franchise, thus leading to the emergence of innovations. The social capital is then used to find external sources of innovations. The second trajectory highlights the role of intuition and social capital within the franchise network. The innovations from this trajectory are the result of the cognitive abilities of the managers and the networks are used to test the ideas.

The trajectories described above are derived from the differentiation between two forms of cognition. The first is reflective cognition, which is a higher form of cognition, and the second is reflexive cognition, which is more intuitive. Both dimensions are found in the empirical data, which suggests that different forms of cognition are part of the dynamic managerial capabilities. This result is consistent with the recommendation of Schilke *et al.* (2018), who argue that additional research on heuristics and dynamic capabilities is, perhaps, necessary. According to the authors, the link between DC and heuristics, which is related to the cognitive process, is relevant for understanding the types of heuristics used by managers and when to use them

(Schilke *et al.,* 2018). We also recommend that the existence of links between heuristics and knowledge/resource transfer in franchise systems be examined, as our findings emphasise the link between intuition and knowledge transfer. Future studies could also focus on the creation of dynamic managerial capabilities in network organisations to determine the level of intervention by managers in each level of the franchise.

Conclusion

In conclusion, this study aimed to show the interactions among the three attributes underlying dynamic managerial capabilities (managerial human capital, managerial social capital and managerial cognition).

The results showed stronger interactions between some attributes, namely, between cognition and managerial social capital and between managerial human capital and social capital. Moreover, two main types of dynamic managerial capabilities were highlighted in franchise systems. The first type is based on intuition and knowledge transfer, and the second type is based on a rational analysis of data and knowledge recombination.

The two forms of cognitions, i.e., reflexive and reflective, have been shown to be interesting in the context of franchise systems, as the results indicate that franchisors are able to mobilise these two forms of cognitions while seeking new ideas for products or services. Although both dimensions are already highlighted in the literature, we provide empirical evidence of the reflexive and reflective cognitions involved in the context of the franchise and the creation of new products and services.

The most important dimension highlighted in this study is the dimension of managerial social capital. Indeed, the social network of the franchisor is essential as franchises are based on the transfer of knowledge and know-how between the franchisor and franchisees. Moreover, franchisees can be an important source of ideas as they have to adapt their units to local particularities. The partners of the franchise may also provide new ideas for innovation as the network is in constant interaction. Thus, the interaction of the network is essential for its success.

This work also suggests future research directions, such as the exploration of the link between cognitive heuristics and dynamic capabilities to understand the types of heuristics used by managers in making decisions. Another direction could be an investigation of the interaction effect between reflective and reflexive cognition on dynamic capabilities.

Limits and avenues for future research

The following limitations of this research provide avenues for future research. This study focused on the creation of new products and services in franchise systems, which are a particular form of inter-organisation. As a result, the generalisation of the data is not possible. Indeed, as we focused on this particular form only, we cannot extend the results to other inter-organisational forms. Hence, further research is needed to confirm or deny the results presented in this article.

In future work, the same number of franchisors and franchisees could be interviewed to obtain a broader view of the network. Moreover, because this study is based on the franchisor side, another avenue of research would be to observe the dynamic managerial capabilities of franchisees and compare them with those of the franchisors.

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