Innovating in franchise networks: a micro-foundation approach of dynamic managerial capabilities

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Abstract:

Franchise systems rely on a close cooperation between franchisors and franchisees. This collaboration allows the access to a large resource base, which is reconfigured to adapt. Franchisors are creators of the franchise concept and are key actors of the network, including to take innovation decisions. Most works have focused on the superior advantage of franchise systems but have not considered their ability to regularly generate new ideas in the network to innovate. This work focuses on a particular type of dynamic capabilities: dynamic managerial capabilities, which emphasize the role of managers in change and adaptation. As a result, it is interesting to understand the dynamic managerial capabilities and the franchise capabilities mobilized by franchise leaders to innovate in the network. To do so, we conduct a qualitative study, based on the analysis of various innovations within 4 franchise networks. This work highlights the micro-foundations of dynamic managerial capabilities and franchise capabilities displayed by franchisors to innovate.

Keywords: Dynamic managerial capabilities; franchise network; franchise capabilities

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1. INTRODUCTION

Franchise systems have proved resilient to the recent covid crisis and have lower failure rate than others types of organization (Parsa et al., 2005; Neise et al., 2021). Actually, franchising is a cooperation between a franchisor and a franchisee and those later can be considered as quasi-entrepreneurs (Hoffman & Preble, 2003). The franchisor formulates and tests a business concept and licenses it to franchisees, which expect to gain a competitive advantage. The head of the franchise also orchestrates the network and provides training, marketing kits, operational manuals, assistance and incentives to franchisees. It also monitors franchisees' performance and their compliance to the standard and procedures of the franchise (Baucus et al., 1996). This organizational form provides a superior advantage in economic turmoil as franchisors and franchisees can exchange information about innovations (Hoffman & Preble, 2003). The network can also tap a larger base of resources than independent owners and recombine those resources to trigger changes.

However, the generation and deployment of innovations in franchise network is paradoxical as franchisors should encourage new processes and ideas to avoid obsolescence of the business format but at the same time, they should guarantee the uniformity of the business format and foster standardization (Falbe et al., 1999; Dada et al., 2012). Actually, franchising is a specific system to manage innovation as maintaining the uniformity of the franchisor's business concept allows ensuring quality standards, economies of scale as well as preserving the franchise's image (Szulanski & Jensen, 2008). Furthermore, new ideas can be proposed by both the franchisors and franchisees (Watson et al., 2020). Recent works have examined the conditions to foster innovations in franchise while preserving the system (Watson et al., 2020; Karmeni et al., 2018).

However, studies have not explored the ability of franchise system to produce continuous innovations and to develop routines to innovate and maintain the system uniformity at the same time. While dynamic capabilities' (DCs) theory can be relevant to understand how franchisors regularly generate new ideas in the network in order to renew the business concept (El Akremi et al., 2015), few works deal with franchise systems. DCs are defined as "*the capacity (1) to sense and shape opportunities and threats, (2) to seize opportunities, and (3) to maintain competitiveness through enhancing, combining, protecting, and, when necessary, reconfiguring the business enterprise's intangible and tangible assets*" (Teece, 2007, p. 1319). We also consider DCs as embedded elements in structured and recurrent processes that are therefore different from *ad hoc* problem solving (Eisenhardt & Martin, 2000; Teece, 2007).

In literature, the development of DCs has been studied in a processual and content approach and authors have enunciated several micro-foundations such as experience, organizational structure, culture, resources (Schilke et al., 2018), information technology (Roberts et al., 2020), learning (Zollo & Singh, 2004; Kale & Singh, 2007; Bingham et al., 2015) and routines (Biesenthal et al., 2019). There is also a stream of research that emphasizes the role of managers/leaders by showing the importance of dynamic managerial capabilities, that are underpinned by three micro-foundations: (1) the role of human capital, (2) social capital and (3) cognition (Adner & Helfat, 2003; Kor & Mesko, 2013; Helfat & Peteraf, 2015). Moreover, previous studies have highlighted the role of franchisees in idea generation (Watson et al., 2020; Simon et al., 2018), managers at the head of the franchise system are key actors. Indeed, they are creators and keepers of the concept, they also decide the development of innovations in the network and their dissemination. To ensure the operation of the networks, they can mobilize different capabilities such as (1) standard operating routines, (2) knowledge sharing routines and (3) trust.

DCs would be useful in franchising because they allow for adaptation through innovation (Hill & Rothaermel, 2003) and innovating regularly through the recurrent modification of resource base (Ambrosini & Bowman, 2009; Laaksonen & Peltoniemi, 2018). As franchisors, are key actors in franchise systems, particularly to take innovation decisions, we want to understand the dynamic managerial capabilities (DMCs) and the franchise capabilities mobilized by franchise leaders to innovate in the network.

To do so, we conducted a qualitative comparison of 4 franchise systems, which have developed several innovations and are characterized as having DCs. Our contributions are twofold. Firstly, we contribute to work on innovation in franchise system by describing the franchise capabilities mobilized to innovate. Second, we bring new insights into the DMCs by answering Schilke et al. (2018)'s call for work on the role of leaders in DCs.

2. LITTERATURE REVIEW:

2.1. THE MICRO-FOUNDATIONS OF DCS FOR INNOVATION

The DC theory (Teece et al., 1997; Teece, 2007) emerged from the resource-based view (RBV) and is interested in how firms can maintain and enhance a competitive advantage, particularly when facing changing environments. DC theory extends the RBV as it emphasizes the importance of having DCs for learning or developing new capabilities and relates performance to a renewal of resource combination (Teece et al., 1997). Indeed, the accumulation of valued resources is not enough to create a stable process in a dynamic environment (Teece et al., 1997; Teece, 2007) and firms should be able to regularly modify their resource base to become competitive and innovate (Teece et al., 1997; Eisenhardt & Martin, 2000; Bingham et al., 2015).

As a result, the development of DCs is essential for the survival and prosperity of companies (Wilden et al., 2013) as they allow firms to anticipate technological evolution and adapt (Hill & Rothaermel, 2003).

The DCs theory has gained significant interest in strategic management research (Laaksonen & Peltoniemi, 2018). Multiple literature reviews track the theoretical developments and empirical research results related to the concept (Ambrosini & Bowman 2009; Barreto 2010; Helfat & Winter 2011; Peteraf et al. 2013; Teece 2007). DCs differ from *ad hoc* problem solving (Winter, 2003) and improvisation (Zahra et al., 2006) as they represent unplanned autonomous actions that are not stabilized over time whereas DCs are recurrent actions (Laaksonen & Peltoniemi, 2018). As stated by Ambrosini & Bowman (2009, p. 34): "*If as more contributors agree, dynamic capabilities consist of repeated processes that have evolved through time, this suggests that dynamic capabilities are in one sense quite stable phenomena*". Similarly, in Helfat et al.'s (2007) definition of DCs, the use of the term "capacity" refers to the repeatability of the capability in order to distinguish DCs from ordinary capabilities as the latter generate one-time changes (Barreto, 2010).

Furthermore, certain researchers have depicted DCs as a precondition for organization to be able to continuously innovate (Breznik & Hisrich, 2014; Rothaermel & Hess, 2007). Innovations are here defined as launching on the market a new offering, deploying new processes concerning the operations or the format of the store or new change in the overall organization of the system. To be able to regularly renew those elements, organizations need to establish routines to modify their resource base (Teece et al., 1997). Furthermore, DCs and the ability to generate constant innovations would imply similar capabilities such as the need to constantly search, scan, explore and implement new opportunities (Breznik & Hisrich, 2014). The sensing, seizing and transforming capabilities also play a role in innovation (Schoemaker et al., 2018) or in open innovation (Bogers et al., 2019).

However, DCs, which are related to innovation are particularly important for organization to sustain their competitive advantage. Thus, Dixon et al. (2014, p. 1999) demonstrate that "*to innovate (DCs) allows creating unique capabilities not available to competitors*". Those unique capabilities are developed through experimentation and internal development of new routines and can be differentiated with the DC of adaptation, which consists in the exploitation and deployment of existing operational capabilities. In particular, DCs for innovation is about the creation of unique capabilities for sustainable competitive advantage.

Dixon et al. (2014) have explained the micro-foundations of those particular DCs in companies evolving in a turbulent environment. Our study extends Dixon et al. (2014)'s research by focusing on another context: franchise systems, which operate in more stable environment. Thus, it allows developing an understanding of the micro-foundations of DCs in non-technological sectors as recommended by Easterby-Smith et al. (2009). Then, franchising is a particular field notably because it offers a reticular approach, which can promote a new understanding of the micro-foundations of DCs for innovation. To our knowledge, this aspect has remained generally overlooked and unintegrated (Vögel & Güttel, 2013). In particular, the individual level has been tackled in conceptual discussions but empirical research remains sparse (Eriksson, 2014). As a result, we choose to focus on Dynamic Managerial Capabilities (DMCs) of franchise leaders.

Several studies point out the importance of top managers in the creation and development of DCs (Rosenbloom, 2000; Tripsas & Gavetti, 2000). Many changes in firms involve decisions by corporate managers. Major corporate-level strategic and operational decisions can include, for example, those regarding firm scale and scope, boundaries of the firm, investments, organizational structure, and also financial goals. As a result, corporate managers perform a resource governance function (Adner & Helfat, 2003; Teece, 2012). Adner & Helfat, (2003) demonstrated that managers from different firms made different decisions in response to changes in the external environment. As a result, to explain differences in managerial decisions that in turn lead to heterogeneity in firm performance, authors introduced the concept of DMCs; that "*are the capabilities with which managers build, integrate, and reconfigure organizational resources and competences*." (p. 1012).

The micro-foundations of DCs have gained greater interest in the search for factors that facilitate strategic change (Helfat & Peteraf, 2015). Micro-foundations are the underlying actions on individual and group levels that shape strategy and organization leading to the emergence of superior organization-level performance (Eisenhardt et al., 2010).

Micro-foundations aim to locate, both theoretically and empirically, related causes of a phenomenon at lower levels of analysis than that of the phenomenon itself (Foss & Pedersen, 2019). These micro-foundations influence the behavior of firms and explain their heterogeneity (Abell et al., 2008; Gavetti, 2005), but in order to explain heterogeneity in routines and abilities, one must consider the heterogeneity of individuals (Foss, 2011). For some authors, micro-foundations refer only to the individual level of the phenomena studied, here innovation. For others, the organizational level should also be considered (Barney & Felin, 2013; Eisenhardt et al., 2010).

2.2 MANAGERIAL MICRO-FOUNDATIONS

The role of individual managers has begun to take greater importance in an emerging literature on the micro-foundations of DCs for organizational adaptation and change (Helfat & Peteraf, 2015). According to Felin & Foss (2005), it is important to understand individual characteristics and behaviors to explain organizational phenomena. The origins of collective concepts lie at an individual level and are rooted in deliberate and intentional action.

In the DCs' literature, authors have developed an approach about DMCs (Adner & Helfat, 2003) and highlighted individual-level micro-foundations such as human capital, social capital, and cognition (Adner & Helfat, 2003; Kor & Mesko, 2013; Helfat & Peteraf, 2015). However, most of the time, researches did not analyze the three antecedents together (Adner & Helfat, 2003). Each antecedent is detailed in the next section.

Managerial human capital refers to the managers' skills and knowledge, which have been shaped by their education, and personal and professional experience (Kor & Mesko, 2013). Hence, managers develop specific knowledge and skills through their different experiences, training and education (Helfat & Martin, 2015).

Managerial social capital is characterized by managers' relationships and connections that can confer some degree of influence, control, and power (Adner & Helfat, 2003; Kor & Mesko, 2013). Social capital result from managers' external social capital and internal social capital, which allow access to resources and transfer of information (Adner & Helfat, 2003). Indeed, managers' external ties can provide access to external resources that may be needed by the firm to operate. They can also provide information on different firms' practices (Gelatkanycz & Hambrick, 1997). Thanks to the greater diversity of information, managers improve their decision-making process and thus improve the performance of the firm (ibid). Regarding internal social capital, both formal and informal work relations may provide information and resources that can be used by managers to detect opportunities.

Managerial cognition relates to the belief systems, mental models, and interpretive frames used to take decisions (Prahalad & Bettis, 1986; Walsh, 1995; Adner & Helfat, 2003; Kor & Mesko, 2013). As a consequence of bounded rationality, managers may not have full information about future events and their consequences. Moreover, managerial value systems can also affect the preferential ordering of alternatives and consequences (Adner & Helfat, 2003). Limited vision and managerial value system form managerial perceptions of a situation (Huff, 1990). Adner & Helfat (2003) observed that DMCs depend in part on managerial cognition. While some leaders' DMCs can make their companies successful (Teece, 2014), others may develop organizational rigidities (Danneels, 2011) due to insufficient DMCs. Later, Helfat & Peteraf (2015) introduced the concept of: "managerial cognitive capability" which highlights the fact that capabilities involve the capacity to perform not only physical but also mental activities. Furthermore, Kevill et al. (2020) argue that managerial time allocation is another DCs micro-foundations in order to enact organizational change.

Recent studies focus on the role of cognition in building DCs (Helfat & Peteraf, 2015). Hence, it refers to mental activities i.e., processes related to knowledge, attention, memories (ibid) that enable decisions to be made by following reasoning (Hodgkinson & Healey, 2011). The latter can be analytical, i.e., rational, or emotional and intuitive. As such, some studies have emphasized the importance of psychological skills i.e., the role of intuition and emotion in the development of DCs (Hodgkinson & Healey, 2011; Huy & Zott, 2019). However, studies point out that cognitive (Helfat & Peteraf, 2015) and psychological (Hodgkinson & Healey, 2011) abilities are heterogeneously distributed among managers.

Beyond individuals, interactions among individuals are also an important mechanism for developing organizational capabilities (Barney & Felin, 2013; Felin et al., 2012; Felin et al., 2015; Wilkens & Sprafke, 2019). The importance of interactions among individuals to develop DCs is illustrated by Malherbe & Loilier (2019). In their study, conducted in an inter-organizational context, they demonstrate that interaction allows for the exchange of knowledge and the creation of a social connection. Knowledge exchanges allow individuals to develop

DMCs through the strengthening of their human capital, social capital, and managerial cognition (ibid).

These three antecedents are interconnected through a number of different factors (Adner & Helfat, 2003). For example, managerial cognition may influence the development of managerial human capital by modifying the search and absorption of information throughout various work experience, training and education. Managerial cognition also impacts how managers use and interpret information (Helfat & Martin, 2015). To the best of our knowledge, DMCs have mainly been studied in a traditional organizational context whereas inter-organizational forms of organization, such as a franchise network, remain understudied (Gillis et al., 2020).

2.3 DCS IN FRANCHISING

DCs play an important role in innovation but only received little attention when studying franchise networks. However, they are relevant as franchisors regularly create new skills or knowledge that is disseminated throughout the network (El Akremi et al., 2015). Those capabilities refer to the chain's ability to use, redeploy resources to formulate and implement the best strategy to meet market needs and outperform competitors (Gillis & Combs, 2009; Griffith et al., 2006). DCs are essential in a collaborative context, such as franchising, where individuals think and work together by exchanging, building and transforming knowledge (Lee & Choi, 2003; Zarraga & Bonache, 2003). To the best of our knowledge, studies investigating the links between DCs and franchise networks have focused on performance, but did not identify the micro-foundations of DMCs (El Akremi et al., 2015). According to Kor & Mesko (2013), DMCs are context-specific, and franchise management may require specific DCs aimed at building an infrastructure and supporting the network. Recent studies conducted within a franchise context, have investigated the impact of network embeddedness and determined that it is linked to the managerial social capital of the franchise leaders (Frasquet et al., 2018). Moreover, innovation and creativity are formed by the culture and diversity of experiences within the network (Simon et al., 2018), which refers to the managerial human capital of franchise leaders.

Hoffman et al., (2011) demonstrated that franchise experts use specific cognitive schemes, which they refer to as "treasure maps", when making decisions. These treasure maps are formed by memory artefacts that favor decision making. But, investigations on franchise leaders' cognition remains scarce. Finally, managerial human, social and cognitive social capital have been examined separately in the various studies on franchise system. Hence, we take on the challenge to look at the three micro-foundations of DMCs to understand innovation in franchise networks. However, franchise leaders may need to mobilize other franchise capabilities to innovate in order to maintain a profitable network.

2.4 FRANCHISE CAPABILITIES TO DEPLOY INNOVATION AND STANDARDIZATION

As previously mentioned, innovation management in franchising is paradoxical. Franchisors must maintain standardization and system integrity without frustrating franchisees' desire for innovation (Dada & Watson, 2013).

Gillis et al., (2020) highlighted the role of franchise management capabilities to deploy changes in the network and facilitate its renewal. 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*" (p. 5). According to the authors, they provide superior performance in the network, as the inter-organizational structure gives an advantage in developing innovation, allowing access to various resources (Schilling & Thérin, 2006). Three dimensions reflect franchise management capabilities: (1) knowledge sharing routines, (2) standard operating routines, and (3) trust routines.

The knowledge-sharing routines relate to innovation within franchise networks, which can emerge from internal sources, such as the franchisor, franchisees, but also, owned units. Hence, franchise management capabilities play a central role in the dissemination of new ideas. Indeed, franchise leaders should encourage franchisees to provide new ideas and subsequently disseminate those ideas throughout the network (Cliquet & Nguyen, 2004). Interactions with various partners are likely to improve the innovation process (Love et al., 2011). Then, franchise management capabilities could foster those interactions.

The standard operating routines relate to the coordination and standardization within the network. Thus, processes are important to ensure a consistent quality within the different units of the network. It is the role of franchise leaders to develop and maintain these processes by training franchisees and communicating important information regarding essential routines (Gillis et al., 2020).

Trust routines relate to the relationships between franchisors and franchisees. The quality of those relationships has proven to be a source of competitive advantage for franchise networks (Chanut & Paché, 2011). The routines improve the ability of the network to adapt to changes in its environment by allowing mutual trust that will have a beneficial impact on the network. Hence, it is important for franchisors that franchisees trust their capabilities to develop competitive strategies over competitors. However, franchisors also have to trust franchisees to incorporate successful local adaptations.

This description of franchise management capabilities is static. Therefore, it would be interesting to understand how those capabilities are mobilized as the network innovates.

To accomplish this goal, we conducted a qualitative analysis through multiple case studies.

3. METHODS

3.1 CASE SELECTION

To conduct our analysis, we wanted to select case, which display continuous flow of innovations as well as DCs. Consequently, we began to identify, through secondary documents, 15 franchise networks, which had launched innovations recently. Among those 15 networks we choose 4 networks, which had displayed more than 2 innovations recently. Within these 4 networks, we studied 10 innovations, which constitute our unit analysis. Those networks are mature as they have been set up for more than 10 years. Their routines are well established and those networks need to renew their competences and innovate. Furthermore, they have comparable size (between 45 to 110 units) and activities (development of products for houses, leisure or cars). However, the nature of innovations launched by those networks differs. Thus, innovations concern new store concept, new services and product as well as new processes.

The characteristics of the 4 networks are presented in Table 1.

Table 1: Characteristics of the selected networks

NETWORK	SIZE	AGE	SECTOR	INNOVATIONS
Case A	45 units	19 y.	Housing and Leisure	2 product innovations
Case B	110 units	17 y.	Housing and Leisure	1 service innovation 1 process innovation 1 concept innovation
Case C	65 units	19 y.	Services for cars	1 service innovation 1 concept innovation 1 product innovation
Case D	51 units	10 y.	Housing and Leisure	2 product innovations

We conducted interviews in each of the 4 selected networks. We interviewed various actors of the franchise: franchisors, networks employees and franchisees. Interviews were carried out physically or by phone.

The interview guide addresses network innovations. Interviewees were invited to present recent innovations set up in the network and the processes used to generate them. They were also asked about interactions with other stakeholders during the process and their involvement in the creation of innovations as well as changes in processes and organization. This approach allowed us to highlight franchise leaders' managerial capabilities as they were describing the development of innovations and the interactions, they had with stakeholders. To avoid interpretation bias and cross-check data, we also interviewed franchisees.

Secondary data were collected to complement the interviews and came from the sources mentioned above, such as the networks' annual reports, articles in the franchising press or specialized articles on the sector to which the network belongs, etc. This secondary data allows us to collect more details on the innovations discussed with the interviewees.

The table below shows the interviews conducted with the 4 selected networks. In total the interviews represent almost 20 hours, and can vary from 30 minutes to 2 hours 06. The average interview length is 1h08 minutes.

Table 2: Interviews conducted

NETWORK	POSITION IN THE NETWORK	DURATION
Case A	Franchise developer	41 min
Case B	Franchisor	1h33
	Franchisee	1h24
	Franchisee	1h36
	Director of owned unit	1h30
Case C	Franchisor	1h30
	Franchisee	2h06
	Franchisee	41 min
	Franchisee	30 min
	Franchisor	35 min
Case D	Network animator	39 min
	Franchisee	52 min
	Franchisee	34 min
	Franchisee	38 min

The interviews were transcribed in their entirety and then coded, as detailed in the following section.

3.2 ANALYSIS

The codes used for the analysis were extracted from the literature, and are presented in the table below.

Table 3: Codes from the literature

CODES	SUB-CODES
Innovation types	New-concept
	New-product
	New-services
	New-processes
Dynamic managerial capabilities	Managerial-human-capital
	Managerial-social-capital
	Managerial-cognition
Franchise capabilities	Trust-reinforcement
	Trust-renewal
	Knowledge-sharing-routines
	Standard-operating-routines

We sought to understand DMCs and the franchise capabilities mobilized by franchise leaders to innovate in the network. To do so, we used the three dimensions of DMCs (Adner & Helfat, 2003), franchise capabilities and the type of innovation. Then, we associated the micro-foundation codes with the capabilities used by franchise leaders to develop the innovations discussed. Similarly, we looked at whether the types of innovation could have an impact on the micro-foundations or capabilities mobilized. Finally, we conducted comparisons of each innovation to observe the similarities and differences between the micro-foundations and capabilities mobilized.

4. PREMILINARY RESULTS

Our preliminary results highlight the different DMCs and franchise capabilities used by franchise leaders when introducing new services, products, concepts or processes. We group the cases based on the type of innovations generated and patterns identified in terms of mobilization of different types of social capital and reinforcement/ changes of certain routines. The following table synthetizes the results:

Table 4: DMCs and franchise capabilities mobilized according to the type of innovation generated

Introduction of new services	Introduction of new products
Case B (New guarantee) • **Based on cognition** • Reinforcing standard operating routines • Reinforcing trust routines **Case C (New insurance service)** • **Based on cognition and development of social capital** • Reinforcing standard operating routines	**Case C (new product for offices)** • **Development of social capital** • Developing new knowledge sharing and standard operating routines **Case D (new vegan products)** • **Based on human and social capital** • Reinforcement of knowledge sharing routines **Case D (new tastier products)** • **Based on human and social capital** • Reinforcement of knowledge and standard operating routines **Case A (new products to do it yourself)** • **Based on human and social capital** • Reinforcement of knowledge and standard operating routines **Case A (new products without grains)** • **Based on human and social capital** • Reinforcement of knowledge and standard operating routines

Introduction of new processes	Introduction of new concepts
Case B (new system online to rate the product) • **Based on human capital** • **Development of social capital (new partnerships)** • Reinforcing standard operating routines • **Development of new knowledge sharing routines**	**Case B (new shop concept)** • **Based on cognition, social and human capital** • Development of new knowledge sharing and standard operating routines • Reinforcing trust **Case C (new activity for cars)** • **Based on social capital and human social capital as well as cognition** • Development of new knowledge sharing and standard operating routines • Reinforcing trust

4.1 INTRODUCTION OF NEW PRODUCTS

The five cases of new product innovations depict the same pattern. Firstly, patterns highlight the importance of the leaders' human capital to develop new products. Indeed, most of the time leaders rely on previous experiences or the one developed in the sector to propose new ideas as highlighted in the following verbatim:

> *"The founders are the ones who often feel the trend when they make one or two trips to the USA every year, to China too every year (...). They (the founders) go to trade shows [...] and the USA they are ten years ahead so it is rather to be inspired by what is happening"* (Network developer, Case D)

Most of the time, social capital is also leveraged in two different ways. Firstly, personal connection of leaders of the franchise may propose new solutions, which are then adapted to fit the network needs as depicted for the introduction of a new product for offices in case C:

> *"We worked with a supplier who offered us the product. At the beginning it was a product which was large panels but not processable, at least as we know how to do it.*

So, we worked with him in order for him to make a product based on rolls of film as we are used to work" (Franchisor, Case C)

In fact, the provider and franchise leaders of Case C have built a long-term relationship, where the provider may offer new product ideas that are then developed by franchise leaders and finally proposed to the whole network. The innovation then contributes to a reinforcement of the social capital and trust routines of the franchisor as the collaboration increases the quality of the relationship between franchise leaders and the provider.

Secondly, as the innovation requires new resources and competences, the network may lack those elements. Thus, leaders of the network rally their connection to suppliers or personal acquaintances to get access to those resources and recombine them in the network as described in the following verbatim:

"Some products are produced by us and others come from partners (...) we have a subcontractor in chemistry which is very good" (Network manager, Case D)

As described in table 4, product innovations allow a reinforcement of knowledge sharing routines as the franchisors present these new products to franchisees in order to disseminate them throughout the network thanks to different mechanisms such as regional meetings, emails etc. Thus, franchisees gain knowledge both about new customers' needs (for example grain free products or vegan products) in the case that we studied. Knowledge is here embedded in the product themselves and franchisees easily accept and absorb new information. Standard operating routines are not transformed but they may be reinforced as the franchisees are able to propose new solutions. Furthermore, as franchisors develop their human and social capital, they are able to deploy specific routines to generate product innovations regularly. Thus, in several franchise systems, the franchisors indicated that their aim is to launch regularly product innovations and they rely on their human and social capital to achieve that objective as highlighted in the following verbatim:

> *"The *** brand has been around for 3 or 4 years, but we release new products every 6 months. We have brought out bowls for the morning, you mix them with your cottage cheese and it makes protein bowls, we have brought out chocolate balls, there are quite a few things that come out every 6 months or so" (Network developer, Case D).*

The diffusion of those innovations in the network is facilitated as specific standard operating routines (such as test and training) are provided and there is no change in the franchisee's own routines.

4.2 INTRODUCTION OF NEW SERVICES

The emergence and diffusion of new services within franchise system are based on slightly different levers than the introduction of new products. Hence, the franchisor's cognition and human capital play a key role. Moreover, franchisors here tend to reinforce standard operating routines and choose among different alternatives, those which are adequate to the existing routine of the network. For example, in case B, the leaders of the networks conduct a yearly survey to know what customers think about the franchise and their experience within networks outlets. This yearly habit corresponds to a standard routine operation. Thanks to the analysis of the survey, the leaders find out that they should propose a one-year warranty to reassure customers about the quality of second-hand products. The network would then be the first one to propose such service. However, even though the innovation was a success for customers and allow to differentiate the brand from others second-hand shops, franchisees, first, were reluctant to adopt the innovation as they perceived it as risky as described in the following verbatims:

" The people in store, who manage their telephone section, were told: tomorrow you will take back phone with a one-year warranty, whereas today it is three months. They look at you thinking: is he mad or what?" (Franchisee, case B))

"When they created the one-year guarantee, I already had experienced it previously and I did not particularly agree with it" (Another franchisee, case B)

In fact, to take full advantage of the innovation, franchisees need to reinforce their standard operating routines and in particular gather data on customers using the one-year warranty, which would be useful for the network to launch customer relationship campaign. Thus, the coordination among franchisee units and the headquarters of the franchise is here essential to value data. Similarly, in case C, the value of the innovation come mainly from the fact that the organization of the franchise network allows claiming benefits in any center:

"*We are the only ones to do that and we are the only ones to be able to do it because we are in a network (…) We propose an insurance and it works in any center" (Franchisor, Case C)*

The coordination with pilot units was also key to identify the idea in case C and to convince franchisees through testing in case B.

Actually, trust routines had to be reinforced to disseminate the novelty. Thus, the financial implications were important for franchisees, as the extension of the warranty offers more opportunities to clients to return products before the end of the warranty. As a result, financial implications are high for franchisees and trust between franchisees and the franchisor as well as the leaders' capability to convince, is essential for the diffusion of the innovation.

4.3 INTRODUCTION OF NEW PROCESSES

The introduction of new processes depicts a different pattern. Actually, process innovations require standardization within the franchise network and is based on a combination of leaders' human capital, based on their experience in the sector and standard operating routines that allow efficiency in the entire network. For example, Case B set up a pricing argus for second-hand products. This argus has been designed thanks to the leaders' experiences and is reinforced through standard operating routines and more particularly coordination. Hence, every franchisee of the network daily uses this tool for pricing operations. This pricing argus is part of the networks' know-how and is viewed by franchisees as valuable for their everyday operations. It is core in the franchise concept and the franchisor did not need to reinforce trust and knowledge sharing routines, especially since the use of such argus is user-friendly for franchisees. They do not know explicitly how prices are defined nor all the different algorithms behind the pricing argus.

The development of this pricing argus increased the social capital of the network as it creates partnerships with other companies that would like to use it. In return, the products that are priced with the new system by partners are included into the stock of the company.

> *"For example, with *** you now have the possibility to resell your game console in a certain number of pilot stores, you are paid in vouchers that allow you to buy something else at ***. The system and the flow of redeemed merchandise is managed by us (...) that is to say that we collect the consoles afterwards to resell them in our stores and they use our tools to estimate the consoles and buy them back from customers. (...). We don't charge (...) it's a win-win deal, because we get the merchandise back, and they have the engineering know-how of the trade-in without having to be specialists themselves" (Franchisor, Case B)*

4.4 INTRODUCTION OF NEW CONCEPT

The introduction of new concepts is probably the most complex type of innovation and implies the mobilization of franchise leaders' cognition the reinforcement of trust routines as well as the development of new knowledge sharing and standard operating routines. It also leads to the increase of leaders' social capital and human social capital as the networks hire people or deal with new providers to develop the new concepts.

Our two concepts are rooted in franchise leader's cognition. As depicted in the following verbatim, which highlights the consideration of two alternatives:

> *"It's a reflection of the board of directors that we had. The starting point was that we had 0 stores in the biggest city in France: Paris. We had two ways of thinking. Either we thought we would duplicate what we already had in other French cities. The other way we chose was to say to ourselves, given the competitive pressure that already exists in Paris, let's start from scratch and rethink how we could go to Paris with as many weapons as possible, both in terms of attracting customers and in terms of the offer we could provide them with" (Franchisor, Case B)*

Franchisors particularly consider constraints of the franchise and the situation of franchisees to choose among alternatives as shown in the verbatim:

> *"We decided that, given the size of our centers, the good shopkeepers in the network, the investment should not be too high, given that the centers were already going through a difficult period (...). We needed quick training that was already in place so as not to waste time, and margin levels that were still satisfactory compared to what we were*

used to. So, all in all, the only activity we found and that was shared by our franchisees was the installation of windshields" (Franchisor, Case C)

Then, to develop the concept and disseminate it to the entire networks, leaders had to set up new standards and knowledge sharing routines so the franchisees can deploy the innovation in their outlets. In fact, existing routines and knowledge of the network became obsolete and the franchisor had to redesign the concept and transferred new skills and competences to franchisees.

As a consequence, financial implications as well as time investment from franchisees were high and leaders had to use their capability to convince the network, more than trust. Indeed, both ideas were risky moves for franchisee in case of failure. However, trust routines were not mobilized by franchise leaders' who still set up these two ideas, which created uncertainty and conflicts in the network.

In order to develop its new store concept, the franchisor had to deal with some franchisees who were reluctant to this new concept, as the following verbatim demonstrates:

In Case B: *"You can imagine the head of the network saying to people who have put hundreds of thousands of euros into their stores, tomorrow the paint will change, the name will change. That's not what I signed up for, so it's colossal. They must not have slept for a few nights" (Franchisee, former Case B network manager)*

In Case C: *"A franchisee who didn't want to renew his contract told me: I didn't sign up with you to install windshields. It's not a job I like. So, I told him, I can understand, we didn't buy the company to install windshields because it's not a job we like either. On* *the other hand, as a company manager, we have an obligation towards our network to find ways to support them if our main business is threatened " (Franchisor, Case C)*

Even though franchise leaders knew that the introduction of new concepts would lead to difficulties in the network, they still disseminated those innovations in the network. As a result, several franchisees left the network. Indeed, the evolution of the concept did not respond to their expectations. However, new franchisees joined the network after the evolution of the concept, leading to a renewal of the franchise network. Hence, we emphasize that the capability to convince is more important than trust, even though trust can smooth the transition.

The introduction of new concepts increased the social capital of the network as they call upon external service providers or hire new personnel to complete the resources and skills of the network as the following verbatim shows:

"Behind the introduction of this activity there is also the hiring of a technical manager, the creation of a specific windshield activity website (...). We had to find agreements with suppliers (...). A consultant to help us set up training courses" (Franchisor, Case C)

Thus, we note that according to the type of innovation, franchise leaders mobilize different combinations of DMCS and franchise capabilities to innovate. Next section discusses these results and conclude this work.

5. DISCUSSION AND CONCLUSION

This work aims to understand the DMCs and franchise capabilities mobilized by franchise leaders to innovate in franchise network.

Our preliminary results highlight 4 categories of DMCs and franchise capabilities mobilized by franchisors according to the innovation type. All franchise leaders display different DMCs and franchise capabilities to innovate. First, the next section discusses the links between DMCs and franchise capabilities and second, it demonstrates the importance of trust routines and conviction capabilities.

5.1 LINKS BETWEEN DMC AND FRANCHISE CAPABILITIES

According to the work of Adner & Helfat (2003), DMCs are composed by three micro-foundations, managerial human capital, managerial social capital and cognition. Gillis et al. (2020) determined that franchise capabilities are composed of standard operating routines, knowledge sharing routines and trust routines. This work is original as we contribute to the literature by highlighting the relationships between DMCs and franchise capabilities in innovating franchise networks. The set of DMCs and franchise capabilities vary depending on the nature of the innovation.

Our work insists on the importance of knowledge sharing and standard operating routines allowing the functioning of the networks for both service and product innovations. The literature has already highlighted that while knowledge sharing routines facilitate the communication of innovation tests to franchisees (Bradach, 1997; Gillis et al., 2014); standard operating routines enhance standardization (Bradach, 1997). In addition, developing knowledge-sharing routines can help franchise leaders to discover franchisee innovations (Darr et al., 1995). Yet, we bring new insights on the difference between those two categories.

Services innovations are more based on cognition while products innovations are more based on human and social capital. Cognition and human capital are elements of DMCs and are related to the reinforcement or development of standard operating. According to us, managerial human capital which is developed through the leader's skills and knowledge and previous experiences (Kor & Mesko, 2013); and managerial cognition, with the interpretive frames used by leaders to take decisions (Prahalad & Bettis, 1986; Walsh, 1995; Adner & Helfat, 2003; Kor & Mesko, 2013); both serve as foundations to develop standard operating routines and then reinforce them as the network continues to innovate to maintain an optimal level of standardization. Moreover, product development processes are becoming more and more recurrent and interrelated, managers' attention gradually switch from single projects to the re-use of design solutions over time (Corso et al., 1999; Cusumano & Nobeoka, 1992). Thus, we demonstrate that, as the same design solutions are reused overtime, it explains why trust routines are not reinforced in this case but lead to a reinforcement of standard operating and also knowledge sharing routines. However, in product innovations, the knowledge to be shared is embedded in the product. As a result, franchisors need less to convince and train franchisees.

On the contrary, we establish that in service innovations, trust routines are present as knowledge is not embedded in a product and needs more explanations to franchisees. Thus, franchisees have to be convinced, as the novelty is immaterial. Moreover, service innovations also change the franchisees' practices, which is not the case with product innovation. This is particularly true when networks sell products and offer additional services in order to differentiate themselves in a hyper-competitive context. Hence, routines are less used to launching services, while product innovation is a regular activity, mobilizing the same routines, based on cognition and human capital that are reinforced over time, supported by DMCs which provide some foundations.

This works also demonstrate that the introduction of new concepts involves the three micro-foundations of DMCs and the three franchise capabilities. It is not surprising that the creation of new concept mobilizes all three micro-foundations of DMCs and all franchise capabilities as these innovations requires more resources from franchise leaders. Indeed, to create a new concept, franchise leaders often reinvent concept from scratch.

As previously mentioned, we believe cognition and human capital are linked to the reinforcement or development of standard operating routines which serve as foundations to develop standard operating routines and then reinforce them as the network continues to innovate. It is the role of franchisor to develop and maintain standard operating routines by training franchisees and communicating important information (Gillis et al., 2020), which also explain the presence of knowledge sharing routines.

The social capital of franchisor is also mobilized to benefit from the resources and transfer of information provided by the external and internal social capital of leaders (Adner & Helfat, 2003). Thanks to the greater diversity of information provided by their social capital, leaders improve their decision-making process (Gelatkanycz & Hambrick, 1997) when creating the concept and then improve the performance (ibid) of the network. As many actors are involved in the process of creation, standard operating routines but also knowledge sharing routines are essential for the success of the new concept. Indeed, interactions with various partners of the network can enhance the innovation process (Love et al., 2011).

Trust routines, are also an important element when developing a new concept. Indeed, the implications are high for all the partners involved. For example, franchisees support the financial risk in case of failure as they invest their own money in their units (Forward & Fulop, 1993). Thus, to encourage knowledge transfer, franchisors need to overcome certain barriers such as lack of trust or cultural differences for example (Okoroafor, 2014). The next section brings new insight on the role of trust and conviction capabilities in franchise networks.

5.2 THE IMPORTANCE OF TRUST AND CONVICTION CAPABILITIES

According to the literature, trust has been identified as one of the most essential elements, which facilitate knowledge transfer and strengthen the franchise relationship (Altinay et al., 2014; Gillis & Combs, 2009). Thus, developing trust favors trust routines as a franchise capability and also knowledge sharing routines.

However, this work demonstrates that even if trust routines are important in franchise networks; franchise leaders' convincing capabilities are essential for the dissemination of innovations. Indeed, when the network of our Case C, had no choice but to evolve its concept to adapt to its environment, trust routines were not enough. As a result, several franchisees left the networks, as the new concept did not correspond to their expectations. However, new franchisees joined because they were interested in the new concept, which led to the renewal of the network. As a result, convincing capabilities may be more important than trust in certain cases to retain franchisees. Hence, we suggest to add convincing capabilities to the previous franchise management capabilities (a) knowledge-sharing routines, (b) standard operating routines and (c) trust routines proposed by Gillis et al., (2020). Moreover, we highlight that these capabilities are reinforced by DMCs developed by franchisors. According to us, franchise capabilities and DMCs are interrelated and managerial cognition, managerial human capital and social capital developed by franchise leaders serve as foundation to develop and reinforce franchise management capabilities. This may lead to encourage less opportunistic free-riding behaviors (El Akremi et al., 2011; Kidwell et al., 2007).

To persuade the franchisee to adopt an innovation, the franchisor may first choose to implement it in its own units to serve as a showcase to convince the most skeptical franchisees (Bradach, 1998; Sorenson & Sorensen, 2001). The franchisor can also use network data to prove the viability of the proposed innovation (Cliquet & Nguyen, 2004). Moreover, reconfiguring and renewing the knowledge and resource base require more investment in franchise networks than in traditional firms and lead to resistance from franchisees (Cliquet & Nguyen, 2004). As a result, if investments are too high or if franchisees disagree with the innovation to set up, in this case, the evolution of the concept, franchisees may leave the network. Indeed, franchisees are owners of their business, so it is necessary to convince them of the necessity of these renewals so that they adopt them in their unit (Ibid). As a result, franchise leaders have to mobilize DMCs and franchise management capabilities to develop different set of routines for innovations as externalities and embedded knowledge are different.

To conclude, the objective of this work was to understand the DMCs and franchise capabilities mobilized by franchise leaders to innovate in franchise network. To do so, a qualitative study was conducted and led to the analysis of 10 innovations within 4 different franchise networks. This work provides a better understanding of the micro-foundations of DMCs and franchise capabilities used by franchisors to innovate. These results, demonstrate 4 categories of DMCs and franchise capabilities mobilized by franchisors according to the innovation type. Indeed, franchise leaders mobilize different combinations of DMCs and franchise capabilities to innovate in their networks. This works also highlights that DMCs and franchise capabilities are interrelated and that DMCs developed by franchise leaders serve as a basis for the development or reinforcement of franchise capabilities.

Franchisors can benefit from this work particularly by understanding that if trust is important for the functioning of the networks, their convincing capabilities are essential to retain franchisees in the network, despite the innovations they want to set up. Thus, convincing capabilities are part of franchise capabilities as are standard operating routines, knowledge sharing routines and trust routines.

This work also has some limitations. First, the size and sector of the networks can be a variable influencing the innovation of the networks. Indeed, some sectors can be considered more inclined to innovation than others. Finally, this work has been conducted in the inter-organizational form of franchise networks. It would be interesting to duplicate this study in other forms of organization to compare the results. These limitations provide avenues for future research.

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