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# 1 Introduction/Background

*Here the authors will introduce the reader to the topic and discuss the background and problem statement. Further, the purpose and research questions will be presented.*

In the past few decades, companies in the service industry have changed the way they provide service to their customers. Before service was understood as customer's personal and close interaction with an employee. Today, technology is changing the way how services are developed and delivered. Some industries make use of different types of innovation that is lacking in other industries, like self-service technologies (SST's). SST's were found to be common in the banking-, traveling- and retailing industry. However, the authors found that in the fast food industry there was a lack of these technologies. Judging by examples from other companies, which had implemented this technology, there existed a huge opportunity for these technologies to be implemented with great benefit for both companies and customers.

From the literature review it was realized that there existed a scarcity of research about the role of local management in the innovation process within fast food restaurant chains. After some research of relevant literature and a pilot study with several local restaurants and cafés, the focus shifted from exploring possibilities of SST in the service industry to the innovation process itself. Even though the focus shifted from SST-possibilities to the innovation process, SST's will still have an important role in this thesis. SST's will work as an example of a major innovation in order to make it easier for the interviewees to imagine the process that will take place. Additionally, a company that already has implemented these types of technologies reports significant increase in profit. Therefore, by using SST as an example of a major innovation the authors believe that maximum interest from the participants will be obtained.

The pilot study also showed that a SST implementation would be treated in a similar manner as other radical innovations requiring considerable amount of capital expenditure. Therefore, the authors believed that SST served as a good example of a major innovation. The focus was then narrowed down to only cover fast food chains, since it became relatively clear during the pilot study that this was the branch within the food service industry which had the largest interest in implementing new technologies and SST's. Thus, the aim is to investigate the role of local management in the innovation process within fast food restaurant chains.

## **1.1 Problem Statement**

### **1.1.1 Franchisees**

A majority of fast food chains uses two types of establishments: franchisees and company owned outlets (Bradach, 1997). The proportion of these two establishments in a fast food chain will have an impact on allocation of authority, power (Furquim De Azevedo, 2010), innovation process (Lewin-Solomons, 1999) and communication. Dane (1992), Dandridge and Falbe (1994) and Lewin-Solomons (1999) emphasize the importance of advisory councils as tools to communicate between franchisees and the franchisor. This benefits both sides, since franchisors largely depend on franchisees feedback and creativity as well as franchisees easily can share their thoughts and opinions. After a thorough research of the relevant literature, the authors learned that a number of researchers identified the scarcity of research about the role of the franchisee in the innovation process (Dandridge, 1998; Sundbo, 2010). Dandridge (1998) looked at how organizational variables in franchising such as size, age and growth affected the support of franchisor for franchisee innovation. Another study, conducted by Lewin-Solomons (1999), explored how much formal and informal power each player in a fast food franchise system has.

Existing research on innovation and entrepreneurship in franchising has concentrated on franchisees, mostly due to the fact that franchisees are perceived as entrepreneurs (Dandridge, 1998), even though entrepreneurship by franchisees is constrained by standards and policies imposed by a franchisor (Bradach, 1997).

These findings set the base for one of the objectives of this thesis, which was to explore the effect franchisees have in the innovation process within a fast food restaurant chain. This is obtained by looking at franchisee power and effectiveness of communication between franchisee and franchisor.

### **1.1.2 Company owned outlets**

Research identified that managers in company-owned stores are less independent than franchisee managers and less concerned with sales or profit outcomes (Boyle, 1994; Lewin-Solomons, 1999). This is due to the fact that company managers are more concerned about stable job and promotions. Thus it would be expected from the managers to

obey the authority rather than being independent and creative (Lewin-Solomons, 1999). In addition Williams (1985) argues that managers in company-owned stores tend to shirk and deliver worse results than franchisees because a part of their salary is fixed and independent of the unit performance. This leads to a lack of motivation and does not provide an incentive to increase performance. Therefore, company headquarters that hires managers would be willing to impose more control on them than on independent franchisees. However, in most research papers, companies being analyzed had either a lot of franchisees and few company-owned stores, or somewhat similar proportion of both establishments. Therefore, it would be interesting to see if the same arguments hold in a company, where every establishment is company-owned.

Thus, the other objective of this research paper was to explore the effect local management has in the innovation process within a fast food chain. This is obtained by looking at power and effectiveness of communication between company-owned outlets and headquarters.

## **1.2 Purpose**

The purpose of this thesis is to explore how the local management affects the innovation process, within fast food restaurant chains.

## **1.3 Research questions**

How does power distribution affect the role of the local management in the innovation process within fast food restaurant chains?

How effective is the internal communication within fast food restaurant chains?

## **1.4 Delimitations**

The main focus in this thesis was to explore the effect of local management within the innovation process. Since the innovation process is also affected by other participants, such as headquarter and higher level managers, it was necessary to include these layers in this study. However, it was not the intention of the authors of this thesis to investigate these additional layers in-depth. Additionally, the intention of this thesis was not to compare two selected cases, but rather treat them as separate study units, link them to the theoretical constructs and see if they comply or contradict them.

## 2 Theoretical Framework

*Here the authors will present and discuss relevant theories that have guided the authors throughout this research.*

### 2.1 Self-Service Technologies

In 1978, Chase (1978) discussed that service companies should try to make their operations as efficient as possible. This can be made by shifting operations that require customer-employee interaction to the back-office if the customer-employee interaction is not critical to the company.

With the help of technology, customers basically replace employees and produce services themselves (Natarajan, 2010). By using self-service delivery options, the company which implements the technology will obtain benefits such as increased productivity and decreased costs (Lovelock, C.H. and R.F. Young, 1979) (Sathye, 1999) (Kelley, 1994). For example, IBM saved US \$2 billion when they shifted telephone call service to online service provision (Burrows 2001).

Holman (2010) pointed out some hinders which made fast food restaurants somewhat more reluctant to use these types of technologies. One hinder he pointed out was the fact that most of the fast food restaurants were organized as franchisees. Additionally, current service philosophies, comfort levels with technology and financial resources of franchisees were not beneficial for implementation of SST's (Holman, 2010)

However, some restaurants have already implemented some types of SST, mainly touch screen ordering systems, and enjoyed financial benefits. For example, Subway has implemented a touch-screen ordering kiosk in one of their franchisee's drive-thru's. This lead to an increased profit with up to US \$750 per week, including larger orders and decreased labor costs (Nextep systems, 2006).

So, given existing research and successful practical examples from business life, it is quite surprising that most of the fast food service companies are hesitating to implement SST's

### **2.1.1 Franchising**

Most of the well established fast food chains are franchises with a large international presence such as McDonald's, Subway, KFC, Burger King, Pizza Hut and more. In a franchise agreement, the parent company, the franchisor gives the right to the franchisee, an independent entrepreneur, to market and sell branded products and services of a franchisor (Furquim De Azevedo, 2010). In return, the franchisee pays fees such as royalties, advertising fees, franchise fee and a development fee (if a franchisee decides to open an additional unit) (Mihoubi, 2011).

The franchisor also puts constraints on the franchisee in terms of establishment design, location of establishment and the products offered. The franchisee normally pays a fixed fee and a royalty depending on performance. Franchisor supports product development, trains management, and supports national promotional efforts (Dandridge, 1994).

According to Rubin (1978), it is in the best interest of the franchisor to demand uniformity within the company in order to safeguard the brand. Rubin (1978) continued by saying that one of the main problems in a franchise system was when a franchisee decided to provide lower quality on a product or service than required by the franchisor. In other words: misuse the brand.

### **2.1.2 Innovation**

Schumpeter (1934) defined innovation as the act of infusing a new component or a mix of components into production.

An innovation can be either radical or incremental. According to Sundbo, (2010) incremental innovation is adaptation of existing products or a new way of delivering products. These types of innovations are the most common ones in franchisees. Since franchisees as well as company-owned outlets have specific instructions from the headquarters on how they should conduct business, which constrains them to implement radical innovations on their own. Deviations from this instruction can have unpleasing consequences, for example, termination of a franchisee contract.

Gallouj (1994) mentioned different types of innovations: (1) Service product: which results in innovation of new element, (2) Architectural: Same elements mixed in another way, (3) Modification: Some elements are adjusted, (4) Ad hoc: Results in a development of a new solution.

In their study about Swedish and Australian frantrepreneurs (a person/franchisee who uses the franchise concept to innovate and adapt service to foreign market) Sundbo, Johnston and Mattsson (2010) found that frantrepreneurs were driven by a number of factors, forcing them to change the standard offering. These were: culture, industry development between countries and opposition from staff. However, innovation made by franterpreneurs generally had an incremental nature rather than radical.

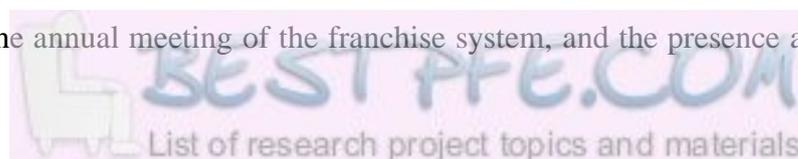
### **2.1.3 Innovation in a franchise setting**

Entrepreneurship within any organization depends a lot on the firm's ability to provide the conditions for it, especially when it comes to creating enough slack or potential space in the system (Kao, 1989; Nohria and Gulati 1996). These factors are relevant for the franchise system, because the amount of entrepreneurial aspects such as pro-activeness and pursuit of aspirations will greatly depend on the organizational context that a franchise system provides (Hamel and Prahalad 1996).

There exist numbers of entrepreneurial strategies that a company can pursue, such as pro-activity, propensity to take some risk and promoting innovation (Miller, 1983). Promotion of innovation can take many forms. The most common ones, also discussed in entrepreneurship and innovation literature, are rewards and the presence of product champions aimed to support innovation and entrepreneurial activity (Shane 1994).

It is common to see the franchisor as an entrepreneur; however the same cannot be said about the entrepreneurial activity of a franchisee. Franchisor is keener to select managers rather than employees for running a franchisee, in order to increase the protection for an unauthorized change (Dandridge, 1998). Thus it is important to recognize the possible benefits that franchisee managers can provide to the whole system if they are being encouraged to be innovative.

Dandridge (1998) found that size and relative growth of the franchise system are positively related to franchisor support for franchisee innovation. Additionally, Dandridge (1998) found three main ways that franchisor managers use to encourage entrepreneurial activity in franchisees. These were: "the use of franchise council, the recognition of new ideas at the annual meeting of the franchise system, and the presence at franchisor



headquarter of a champion for innovation at the franchisor headquarters” (Dandridge, 1998, p133).

There is a belief that franchisees can be regarded as “controlled self-employed”, where entrepreneurship is constrained by standards and policies imposed by the franchisor (Bradach, 1997). Kaufmann and Dant (1996) looked at franchisees as being risk averse, lacking initiative and that they enter into franchising in order to buy a secure job. However, other research recognized that franchisees were often being encouraged to be innovative, especially when it came to local marketing and product development (Baucus et al. 1996). A study of McDonald’s franchisees conducted by Weaven (2004) found that single-unit franchisees did not see innovation as an important thing. Instead, they stressed more financial security and control over marketing

#### **2.1.4 Franchisee vs. Company-owned outlets**

As mentioned by Lewin-Solomons (1999) both franchisees and company-owned outlets could be present in a company simultaneously. Shelton (1967) showed that fast food franchisees are more efficient than company-owned outlets. This is due to the fact that franchisees were more concerned about resources, costs and conditions of the local market. Oxenfeldt and Kelly (1968) added that franchising is a faster way to grow and gives access to financial as well as human resources and Minkler (1990) added that franchising also provides an understanding of local markets.

However, Oxenfeldt and Kelly (1968) said that franchise systems tend to rely more on company-ownership instead of franchising when maturity is reached. This occurs for three main reasons: franchisor tries to increase its profit by taking control over the most profitable units, franchisor acquires local knowledge of site when acquiring outlets and franchisor increases the managerial skills of the company.

In general, company ownership gives more operating credibility to the franchise organization, whereas franchisees are more a source of creativity (Dant, 1992). The study of franchising in France by Cliquet (2011) found a tendency among companies to group franchisees together in order to smooth the progress of innovation and new product development. They also found that franchisees experienced demotivation and anxiety if the number of company-owned stores were too high.

A study conducted by Lewin-Solomons (1999) on innovation and authority in franchise systems investigated five major fast food chains: Burger King, Pizza Hut, Denny's, Subway and KFC. They found that the innovation process in a fast food chain differs depending on the proportion of franchisees compared to company-owned stores. If the proportion of franchisees is large, like in Burger King, the innovation and creativity usually comes from the franchisees. In chains like Denny's and Pizza Hut, where there are more company-owned outlets than franchisees, the innovation usually comes from the company headquarters and is often implemented in company-owned outlets first.

In these cases, where there exist a large number of company-owned outlets, franchisees are generally more confident about the company's decisions. They believe that they will not implement something that will be unprofitable, since the losses will be significant for the company. Company headquarters are also mostly responsible for evaluating the idea and deciding whether to implement it or not.

An additional finding by Lewin-Solomons (1999) was that most of the product testing takes place in franchisees, especially within Burger King and Subway where the proportion of franchisees is high. The companies then also depend on the constructive feedback of franchisees in order to solve any problem.

Difference between "formal" and "real" power has been recognized by several researchers. Aghion and Tirole (1997, p. 33) explains the difference as formal power being "the right to decide" while real power being "the effective control over decisions."

Furquim De Azevedo (2010) argued that the formal power of the franchisor will increase if the number of company-owned outlets increases. Moreover, with the increase of company-owned outlets the real power of a franchisor also increases. Because with the help of the information gathered from its own units, the franchisor collects valuable knowledge about franchisees environment.

However, Furquim De Azevedo (2010) also argued that if franchisor maintains too much authority, this would impede franchisee chances to utilize specific local knowledge. Findings of their study suggest that the higher the brand value the lower the allocation of authority to franchisees.

### **2.1.5 Communication**

Bradach (1997) found that communication between the higher level and local management in company-owned outlets was strictly formal. It was typical to use management information systems for measuring performance of the company. Field audits were taking place on average once per month, together with frequent secret visits by company managers in order to assess dining experience from customers point of view (Bradach, 1997).

Bradach (1997), continued to say that the most important aspects for higher level management in order to communicate with franchisee were communication-, negotiation- and listening skills. Field audits and secret visits for evaluating performance were carried out less frequently in franchisees than in company-owned outlets. This implies that franchisees have greater amount of independence which can positively affect their position in the innovation process.

From the franchisee perspective, one of the most important tools for communication was the franchisee advisory councils. The advisory council served as a valuable instrument for the franchisees to communicate with their superiors. Dandridge (1994) defined the advisory council as an elected or selected small group of franchisees who meet with company headquarters representative to give advice on matter that are important to all franchisees. Research by Dane (1992) concluded that both autonomy and high dependence on franchisor would increase franchisee success. Lewin-Solomons (1999) added that advisory councils were very important for franchisees, because headquarters depend largely on franchisee input when it came to decision-making.

### **2.1.6 Experience of a franchisee**

Managerial expertise is an organizational specific asset that accumulates in time (Williamson, 1985). The study conducted by Dandridge (1998) found that company size had positive impact on franchisor support on franchisee innovation. The degree of innovation by franchisees was also found to be positively affected by the amount of time the franchisee is in the system (Wilson, 2009). Study by Lewin-Solomons (1999) found that franchisors sometimes ignore when franchisees deviate from the norms because franchisors trust their experience. However all major innovations, such as, implementing a SST, must be approved by the franchisor (Lewin-Solomons, 1999). In any case, major ideas can be born from franchisee, the company-owned outlet or the company headquarter-

ters. However, franchisee or a company-owned outlet would need to contact the headquarters of the company or meet them in order to present the idea and get the approval for it (Wilson, 2009)

## 2.2 Summary of the findings

By looking at the previous research, a number of factors that affect innovation were identified. These are presented in the table below.

Table 1. Factors influencing innovation in fast food franchises.

1	The proportion of franchisee restaurants in a franchise system	Lewin-Solomons (1999)
2	The existence of an advisory council	Dane (1992); Dandridge (1994)
3	Power	Lewin-Solomons (1999); Furquim De Azevedo (2010)
4	Financial resources	(Holman, 2010)
5	Current service philosophies	(Holman, 2010)
6	Presence of champion of innovation	(Shane 1994); (Dandridge, 1998)
7	Recognition of new ideas in annual meetings	Lewin-Solomons (1999); (Dandridge, 1998)

The authors of this thesis will focus on the first three factors.

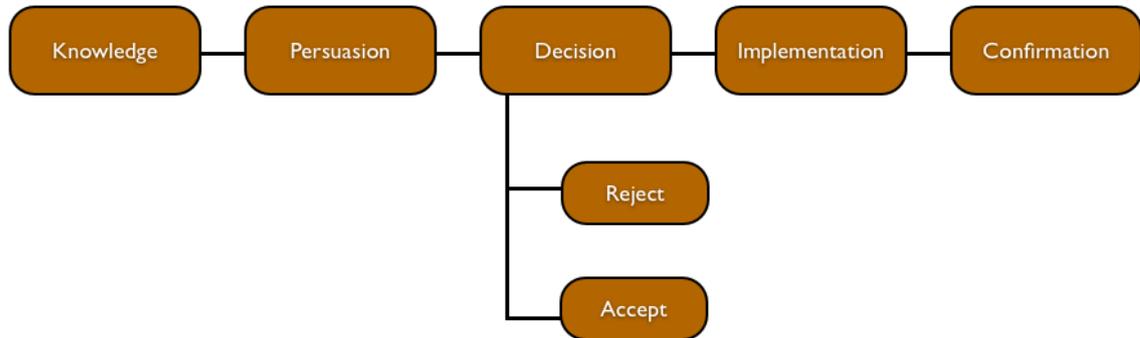
## 2.3 Concept Development

### 2.3.1 Roger's diffusion of innovation

For the purpose of this study, the authors chose Roger's Diffusion of Innovation process in order to explain the innovation process in fast food restaurants. According to Rogers (1995) there exist 5 stages of Diffusion of Innovation:

Figure 1.

## Five Stages in the Decision Innovation Process



### 1. Knowledge

Here the individual is exposed to and aware of an innovation, but is not inspired to find more information about that innovation.

### 2. Persuasion

A very large interest regarding an innovation exists and active information gathering takes place.

### 3. Decision

Here, advantages and disadvantages (costs) regarding the innovation will be compared in order to sort out if the innovation should be rejected or accepted.

### 4. Implementation

The implementation of the innovation. In this stage the innovation is tested, in order to see if the innovation is useful or not.

### 5. Confirmation

Decision regarding further use and implementation to its fullest potential will be made here.

According to Lewin-Solomons (1999) creativity usually comes from the franchisees when it exist a relatively high proportion of franchisees in comparison to company-owned outlets (for example, in companies such as Burger King and Subway). In these cases, the main actors in the first two stages (Knowledge and Persuasion) should therefore be franchisees. However, since the franchisor sets the standards on how a franchisee should conduct its business, any change proposed by a franchisee would require the approval by the franchisor. Therefore, stage three (Decision) will be in the hands of the franchisor. According to Lewin-Solomons (1999), most of the product testing within companies with high proportion of franchisees takes place in the franchisees. Leading to franchisees being the main actor during the fourth stage (Implementation). As mentioned, the power over the franchisees lays at the franchisor. Therefore, the franchisor will control the final step regarding innovation process (Confirmation).

On the other hand, Lewin-Solomons (1999) stated that when there exists more company-owned stores than franchisees, the innovation tends to origin from the company headquarters and were often implemented in company stores first. Therefore, in companies with a majority of company-owned outlets, the headquarters would be the main actor during more or less the entire implementation process, however the implementation itself (Stage 3) would take place in the local restaurants. This gives the local management some control over the fourth stage (Implementation) (Lewin-Solomons 1999).

### **3 Method**

*Here the method for gathering the empirical data will be presented.*

#### **3.1 Arguments for selecting a case study approach**

According to Yin (2003) three conditions should be taken into consideration when choosing a research strategy: 1) the type of a research question, 2) the degree of control the author has over the study units and 3) research focus on contemporary as opposed to historical phenomena (Yin, 2003). The authors have chosen a case study because this study looks more at operational links of the phenomenon rather than incidence or prevalence of the phenomenon. It also emphasizes on explaining how organizational structure affects the innovation process. According to Yin (2003) “how” and “why” questions are more exploratory and lead towards case studies, experiments and histories.

According to Baxter and Jack (2008) case study is by far the best method to address the context issue. Moreover, the qualitative research study is useful when researchers want to explore a phenomenon within a context. Since exploring the phenomenon and its context helps to better understand all aspects that affects and shapes the phenomenon (Baxter, 2008). Baxter and Jack (2008) also said that a case study in an organizational research usually concerns people or groups of people that are operating within and around the organization. Thus, this research seeks to explain the phenomenon by investigating the role of the local management of a fast food company and its affect of the innovation process. The layer that is of particular importance for this study is the local management. However, since the company headquarters and other players that also has a considerable stake in the organization, and therefore influence the innovation process, will be included in this study. An example of these stakeholders is the independent contractor called “development agent” in Subway, whose function is to supervise franchisees in the field.

#### **3.2 Pilot study**

Before establishing the purpose of this thesis, a pilot study was conducted in order to get an increased knowledge regarding the general mindset of local restaurant management, when it came to new innovations and technology. This study, which took place at several restaurants and cafés in Jonkoping, made the authors realize that not every res-

restaurant and café was interested in new innovations and technology. When asking managers at local restaurants and cafés about implementing new innovations such as SST's, the managers saw more losses than benefits. The general response was that by installing a SST the restaurant would lose the personal service which counted for up to 40% of the restaurant experience, according to a manager at Twin City.

During the pilot study, it became clear that restaurants and cafés did not want to speed up the ordering process by implementing new innovations and SST's. Instead, they want to focus more on personal service and make sure that the customers stays satisfied during their stay in the restaurant. However, during the interview with a fast food restaurant manager, he pointed out that the industry (fast food) tends to focus more on time and speed than "normal" restaurants. He also saw the ordering process as a "bottle-neck" which could be improved by implementing innovations such as SST's.

Therefore, the authors decided to only focus on the fast food industry while continuing their work on this thesis.

### **3.3 Case selection**

#### **3.3.1 Location of Research**

A several number of international fast food franchises operates in Sweden, for example; McDonald's, Burger King, Pizza Hut and Subway. Together with several Swedish branches, for example Frasses, Max and Sibylla the supply of fast food restaurants in Sweden is relatively high. Since the amount of fast food restaurants in Jonkoping keeps growing, with a new Max restaurant, a new Subway restaurant and a Burger King restaurant opening as late as last fall (Fall 2010), it is also fare to say that the fast food industry in Jonkoping is at least successful. Jonkoping also has a geographic location that allows many travelers to pass through the city and will therefore beneficially serve as research location for this thesis.

##### **3.3.1.1 Subway**

Subway is an international fast food franchise with over 34 600 franchisees in 98 countries (Subway, 2011, 20 May). Subway is currently listed number 9 in the Entrepre-

neur's 2011 Franchise 500® list as one of the fastest growing franchise systems in the world (Stapp, Februari 2011) Additionally, Subway overtook McDonald's as the world's largest restaurant chain earlier this year (BBC News, March 9, 2011). Subway also was the most popular international fast food franchisee in Sweden last year (2010), according to a market research conducted by ISI Winning (2011) and took the 3rd place in most popular fast food company in Sweden, after the two domestic companies Max and Siblylla. Subway is entirely franchised and owned by Doctor's Associates, Inc. (DAI) according to Lewin-Solomons (1999). DAI consists of a few number of people, therefore they do not have the power to supervise and support the franchise. Instead, the Subway Franchise Owners Advisory Council, (SFOAC) provides support to the franchisees and supervising the franchise is delegated to independent contractors (Lewin-Solomons, 1999)

Two of Subway's franchisees are located in the city center of Jonkoping, Sweden. In comparison to the other international franchises located in Jonkoping, (McDonald's and Burger King) Subway's ordering system is focused on individual choices, where every customer makes an order in 7 different stages (see appendix 3)

This relatively intense ordering process demands a higher involvement from the customer than in other fast food franchises. In other fast food franchises the meals are more or less pre-set (i.e. if the customer do not tell the restaurant that they want something removed, added or changed, they restaurant will offer the customer the original pre-set menu).

Subway was a subject to a tremendous sales increase which was caused by the initiative of a small "subway" shop owner Stuart Frankel. During the times of recession, he started offering a footlong Subway sandwich for 5\$ which was about 1\$ dollar cheaper than before. Surprisingly, this change in price was very appealing to the customers. The idea quickly spread among other Subways all around the world and generated remarkable 3.8\$ billion sales throughout the chain. This idea even reached Swedish franchisees, where they had an opportunity to sell footlong sandwiches for 55 SEK. "Frankel's \$5 footlong idea illustrates how a huge company can wake up and eventually seize on a good idea that's not generated at headquarters" (Boyle, 2009).

Therefore, the authors of this thesis believed that the implementation of a SST at Subway would have a greater benefit to its customers (and personnel) than in any other fast

food franchise operating in Jonkoping. The local management should therefore be more interested in the innovation and more motivated to participate in this research.

### **3.3.1.2 Max**

Max was the most popular fast food company in Sweden last year (2010), according to a market research conducted by ISI Winning (2011). It is also one of the largest Swedish fast food restaurant chains, with currently 82 restaurants located in Sweden, with three company owned restaurants located in Jonkoping (max.se, 20 May). The headquarters are located in Lulea, Sweden. The restaurant located at Ekhagen nearby the highway E4 already has an SST implemented in form of an “Express-cashier” where the customers can make their orders and pay by credit card and then receive their orders at a specific “Express-cashier” handout desk.

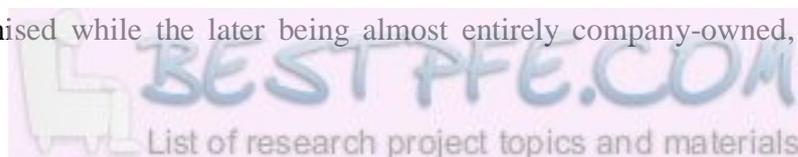
The authors believed Max to be a good opposite to Subway. Max already had started implementing SST’s in Jonkoping and since the majority of restaurants are company-owned, it would provide the authors with a different setting. Additionally, Max originates from Sweden where it exclusively operates in comparison with Subway which originated in the U.S. and then expanded abroad and now operates globally.

### **3.3.2 Selection of study units**

In statistical sampling, “bias” is considered a weakness and should be avoided. However, this approach is considered as strength in a qualitative research. The idea behind “biased sampling” or so called “purposeful sampling” is to select information-rich cases from which authors can learn about issues which are of great importance when answering research questions (Patton, 2002)

The most important thing when selecting cases was to find companies that had very different proportions of franchisee and company-owned establishments in their organization. It was also not feasible to include all restaurants in this research due to lack of time. Therefore, the authors choose to use purposeful sampling to represent two typical organizational structures that comprise fast food companies: franchise and company-owned outlets.

Thus, Subway and Max were seen as the best choices, because the former company is entirely franchised while the later being almost entirely company-owned, except one



single franchisee. Additionally, another reason for choosing these two companies was the fact that both of them have implemented SST's in some of their restaurants. Max has implemented this type of innovation in one of the restaurants located in Jonkoping while Subway has implemented this type of innovation in restaurants located in the U.S. Therefore, by selecting Max and Subway authors of this thesis are confident that the study units are innovative and not afraid to experiment with new technologies.

### **3.4 Data Collection**

In order to fulfill the purpose of this research, the authors conducted interviews with employees and restaurant managers within Subway and Max-restaurants located in Jonkoping. The aim of these interviews was to get an increased knowledge regarding the organizational structure and the decision making process within these two companies. First, an initial contact was made over phone in order to book a meeting and to discuss the purpose of the thesis with the managers. A meeting at the local restaurants then took place in order to analyze the current mindset, knowledge, interest and power of the local managers regarding the implementation of SST's and other innovations.

Semi-structured interviews with the restaurant managers were used in order to receive background information regarding the restaurant and the manager. By using a semi-structured approach, the managers were free to talk about their situation and/or issues regarding their contact with the higher level managers, while the authors lead the interviews with questions so that the interview maintained relevant for the research.

(See Table 2).

According to Bouchard (1976), interviewing takes advantage of language, which is the most powerful form of communication among human beings and a tremendous amount of time and effort could be saved by asking questions in order to retrieve information. (Bouchard, 1976).

After the initial pilot study, the authors conducted interviews at five different fast food restaurants located in Jonkoping: three Max-restaurants and two Subway-restaurants. The internal names for the Max-restaurants were numbers according to their "chrono-

logical order” (i.e the first Max-restaurant was called “Max 1”, the second “Max 2” etc. Therefore, the managers interviewed in this research will be named according to their restaurant: manager at “Max 1” will be called “M1” etc.) The same system was also used by the authors when referring to the two Subway managers (i.e S1 and S2).

*After interviewing the local management within Subway, authors received two different views regarding the communication and the decision-making process. Therefore, the authors felt a need for contacting higher level management in order to sort out these views and to receive additional information.*

Table 2. Overview over the restaurants, interviewees, place, time, length and language of interview.

Restaurant	Name	Place of interview	Length of interview	Time & date when interview started	Language of interview
<b>Pilot study</b>					
Twin City		Bar	10 min	February 3, 11.00am	Swedish
Coffeehouse by George		Order desk	10 min	February 7, 09.00am	Swedish
Wayne´s Coffee		Customer dining area	10 min	February 8, 09.00am	Swedish
Subway, Filmstaden		Customer dining area	20 min	February 9, 3.00 pm	English
<b>Fast food restaurants</b>					
Manager at Max Jordbrovagen	M1a	Staff dining room	40 min combined	April 6, 6.00 pm	English/Swedish*
Assistant Manager at Max Jordbrovagen	M1b				
Manager at Max Herkulesvagen	M2	Kitchen of the restaurant	12 min	April 15, 09.45am	Swedish

Restaurant	Name	Place of interview	Length of interview	Time & date when interview started	Language of interview
Manager at Max Ekha-gen	M3	Customer dining area	25 min	March 3, 09.00 am	Swedish
Manager at Subway East	S1	Customer dining area	30 min	April 5, 10.00am	English
Manager at Subway Filmstaden	S2	Customer dining area	20 min	May 4, 3.30 pm	Swedish
<b>Confirmation interviews</b>					
Amsterdam Customer Service and Communication coordinator	AC	E-mail-conversation		May 10	English
Regional manager, Subway	RS	Phone interview	20 min	May 17, 10.00 am	English
Regional manager, Subway	RS	Phone interview	8 min	May 23, 09.00 am	Swedish
Manager at Subway Filmstaden	S2	Outside serving area	5 min	May 23, 09.14 am	English
Manager at Subway East	S1	Customer dining area	15 min	May 23, 2.00 pm	English

\* The interview started in English, however due to language constraints the language changed to Swedish in order to maximize the information from the interviewees.

### 3.4.1 Language of the interview

Regarding the language of the interviews, the aim was to use English in order to minimize the risk for translation errors. However, since the research was conducted in Jonkoping, Sweden and the interviews were held with Swedish managers, the majority of the interviews were held in Swedish in order to make it as convenient as possible for the interviewees. By using their native language, the managers felt more comfortable in the situation and could supply the interviewers with more in-depth answers and express

their thoughts and opinions in a more detailed way. Two of the authors are native Swedes, which made it possible to conduct these interviews in Swedish.

The empirical data received from these interviews was then translated into English and transcribed in order to suit the thesis. The interviews were recorded in order to allow the interviewers to focus on the interviews and to minimize the risk for errors and misunderstandings which could appear while taking notes. Permission of recording the interviews was given from the interviewees, before the recording started.

### **3.4.2 Interview Techniques**

One of the main goals during the interviews was to keep the interviewees motivated and interested during the entire interview, in order to receive as much information as possible from the interviewees. Another important aspect is that the interviewee feels comfortable in the situation and can trust the interviewer. Bouchard (1976) discuss some useful tactics that could be used in order to achieve these goals:

#### **1. Maximize privacy**

An interview should take place in a setting where no one can overhear the interview. The interviews took place in the respective restaurant, with the interviewees choosing the specific location. This seemed to be the best solution, since it would be a place where the interviewees would feel comfortable while it also gives the interviewee the opportunity to decide the level of privacy.

#### **2. Know whom you are talking to.**

During the initial contact with the restaurants, a request to talk to the manger was made. Names of people the authors were in contact with was noted and used during the interviews.

#### **3. Maintain neutrality**

No bias information was shared by the interviewers. The role of the interviewer was exclusively to retrieve as much relevant information as possible from the interviews and to let the interviewees express their own thoughts and opinions to their fullest.

#### **4. Maintain confidentiality**

No specific information regarding an interviewee was shared with another interviewee. The interviews were held confidential. (However, some information regarding other interviewees was shared, see “Tactic no.7”).

#### **5. Listen**

Listening during an interview is just as important as obvious. Not showing interest as an interviewer leads to decreased motivation and interest for the interviewee. Therefore it was highly important for the interviewer to be listening during the interview, even though the interviews were being recorded. By listening to the interviewee the interviewer was also able to know if any follow-up question could be asked in order to retrieve a more in-depth and detailed answer.

#### **6. Cooling out**

During an interview, there exist a risk that the interviewee reveals “too much” or classified information. This could lead to a more reserved attitude in future interviews, especially of the interviews range over a long period of time and with other interviewees, according to Bouchard (1976). In order to prevent this, the interviewer utilized the “cooling out”-technique by ending the interview in a more relaxed manner. This will lead to a decreased risk for reserved attitude in future interviews, according to Bouchard (1976).

#### **7. Inform all respondents about who will be interviewed and how they were chosen.**

According to Bouchard (1976), it is important to inform the interviewee about why he/she was chosen for the interview. Along with additional information about who else was participating in the research, uncomfortable questions from the interviewee regarding the selection of interviewees could be answered.

The authors informed the interviewees about why they had been chosen for the interviews, together with information about who else will be, or has been interviewed during the research.

## **8. Identify yourself.**

For the interviews conducted in this research the initial contact was made over phone, where the researchers presented themselves and the purpose of the interview. Additionally a short introduction about the research and the authors was made at the interview in order to let the interviewees know who the authors were and why the interview was conducted.

### **3.4.3 Interview guide.**

According to Patton (2002, p 343-344): “An interview guide lists the questions or issues that are to be explored in the course of an interview”. Interview guide is important to insure that respondents are being asked more or less the same questions. Interview guides can be very detailed or it can be less detailed, which depends on two things: (1) the extent to which researchers are able to identify the important topics beforehand, and (2) the researchers’ willingness to ask questions in the same order to all interviewees (Patton, 2002).

By looking at the previous research, the authors of this thesis have been able to identify the relevant topics that had to be discussed with respondents in order to fulfill the purpose of this thesis. The main topics that emerged from the theoretical framework and were covered in the interviews were the following:

- Origins of creativity within organizations

- The amount of power local management holds when it comes to innovations.

- Degree of independence over decision making.

- Knowledge about Self-service technology

- Patterns of communication within organization.

- Vertical communication between local management and higher level managers.

- Horizontal communication among local managers.

- Effectiveness and frequency of communication

- Different support mechanisms from higher managers to local management.

## 3.5 Data analysis

“The analysis of case study evidence is one of the least developed and most difficult aspects of doing case studies.” (Yin, 2003, p 109). By this, Yin (2003), mean that researchers often begin a case study without knowing how to analyze the results.

### 3.5.1 Inductive vs. Deductive approach

Patton (2002) defines inductive analysis as discovering patterns and thesis that emerge from the data collected. In contrast, deductive approach is when the data is being analyzed in relation to the previously developed theoretical framework. Patton (2002) argues that qualitative analysis is typically inductive at the beginning where themes, categories and patterns emerge. After these have been established, the deductive approach can take place when testing and affirming the validity and suitability of the inductive content analysis.

However, Patton (2002, p. 454) also discusses *Analytic induction* as a way to analyze in qualitative research. He states: “Analytic induction... begins with an analyst’s deduced propositions or theory-derived hypotheses”; “and then inductive ... when analyst begins by examining the data in terms of theory-derived sensitizing concepts or applying a theoretical framework developed by someone else”.

Gilgun (1995) added:

“In analytic induction, researchers develop hypothesis, sometimes rough and general approximations, prior to entry to the field. These hypotheses can be based on assumptions, careful examination of research and theory, or combinations. Hypothesis are revised to fit emerging interpretations of the data over the course of data collection and analysis” (Gilgun, 1995, p. 268-69).

In the beginning the authors of this thesis were using propositions as a tool to guide the process of the analysis. However, propositions were derived from the research questions, which in fact were derived from the theoretical framework. So, the authors of this thesis decided to use only research questions and incorporated the propositions in to the research questions, since they both stated the same.

Thus, the authors of this thesis deduced theory to the research questions instead of propositions. Later, authors examined the data by linking it to the theory-derived con-

cepts developed in the theoretical framework. As well as applied Rogers' Diffusion of Innovation to a fast food restaurant setting.

### **3.5.2 Cross case analysis**

Analytic induction, which is the strategy used for this thesis, also includes cross-case analysis or "qualitative comparative analysis" as a tool to search for explanations of the phenomenon under study (Patton, 2002, p. 492). Denzin (1978) identified that in analytical induction one can use cross-case analysis to compare carefully prepared case studies and then use this comparison to explain the phenomenon.

Ragin (2000) defined cross-case analysis as "qualitative comparative analysis", which focused on making systematic comparisons among a number of cases. Ragin (2000) has used this approach, which entailed taking into account both the uniqueness and commonalities between the cases, thereby explaining similarities and differences between them.

## **3.6 Trustworthiness**

Shenton (2004) has derived some strategies for ensuring trustworthiness in qualitative research projects by combining and discussing several researches on the subject. Discussing the trustworthiness of a research, four main issues are addressed; credibility, transferability, dependability and confirmability. These will all be addressed below.

### **3.6.1 Credibility**

Shenton (2004), discussed several strategies to ensure credibility of the research. The authors focused on some of them:

#### **1. The adoption of research methods well established.**

The adoption of research methods well established is the idea of using proved methods of gathering data, construct questions etc (Shenton, 2004). In this thesis the authors have made extensive research on the subject to find previous research that was of great importance for this thesis. By this, the authors were able to find strong and relevant theories for their thesis. Most of the researchers, especially those studying entrepreneurship within franchise systems (Lewin-Solomons, 1999; Sundbo, 2010) and plural forms within franchising (Bradach, 1997), were using a case study approach. These articles guided the creation of relevant research questions and purpose of this research, which

were adjusted slightly after conducting a pilot study. Since the aim of this thesis was to explore how the local management affect the innovation process, within fast food restaurant chains, using a case study approach seemed to be the most suitable. Hence, this thesis bases its theories, concepts and approach on previous and well established research.

## **2. Tactics to help ensure honesty in informants.**

The participants should be given the opportunity to refuse participation of the data collection. It is also important that the participants feel that they can speak freely, contribute with ideas and share their experience without being afraid of losing credibility to higher level management (Shenton, 2004).

For this thesis, the main data collection tool was interviews. During these interviews the tactics by Bouchard (1976) was implemented to ensure that the interviews were properly conducted. By utilizing Bouchard's (1976) tactics and an informal structure of the interview, the authors were able to create a relaxing atmosphere. The participants were allowed to speak freely and encouraged to share their experiences. In addition, by keeping confidentiality, no information from interviews was revealed to other managers. So by the tactics derived from Bouchard (1976), the authors of this thesis strived towards ensuring honesty from the informants.

## **3. The researchers "reflective commentary".**

The researchers should evaluate their own work as it progresses. A reflective commentary part may be constructed to discuss effectiveness of methods, initial analysis of data collection etc (Shenton, 2004).

A reflective commentary part has not been included in this thesis, however, throughout the research the authors have constantly evaluated the ongoing work. Some discussion takes place in the discussion section in the end of the thesis. Additionally, the benefit of being three researchers is clear in the evaluation process, since it will immediately be evaluated by three different minds.

#### **4. Examination of previous research:**

In order to increase credibility, one aspect can be to investigate how the research corresponds to previous research made in the same organization or issue (Shenton, 2004).

Research about Subway as well as related issues was found and discussed by the authors of this thesis. A majority of the findings of this thesis corresponds to previous research, which increases the credibility of these findings.

Taking all this (these strategies) in to consideration, this thesis is credible due to the fact that: It is based on well established methods, honesty of the participants is considered to be achieved , critical self-evaluation has been made by the authors and findings has been compared to previous relevant research.

#### **3.6.2 Transferability**

In order to increase the transferability of the research, some information regarding the method should be provided. Shenton (2004), mention several important aspects that should be addressed. These are: The number of organizations taking part and their location, any restrictions in people contributing to the data, number of participants in the fieldwork, data collection methods, number and length of data collection sessions and the time period which the data was collected.

This information is shown in Table 2 where it is easy to see when and how the interviews were conducted. Further information is discussed in the method section.

Additionally, the authors believe that this research is applicable not only to fast food restaurants, but also other types of companies. A local franchise manager or local manager at a company-owned outlet in a retailing company is likely to share similar experiences as the fast food managers. Therefore this research could apply to all companies that utilize either franchise or company-owned outlet system to operate their business.

#### **3.6.3 Dependability**

*“In order to address the dependability issue more directly, the processes within the study should be reported in detail, thereby enabling a future researcher to repeat the work, if not necessarily to gain the same results.”* (Shenton, 2004, p. 71.)



Shenton (2004) also mentions three aspects that should be incorporated in the research: The research design and implementation, detail of data gathering, reflection of the project.

For this research, the authors have described the research process and the tools for gathering data to the best of their ability. The authors believe that a replication of this research is possible, however, if performed in a different setting or location the result may not be the same. Although, when it comes to dependability, this thesis is very much replicable.

#### **3.6.4 Confirmability**

Confirmability is another strategy to ensure the objectivity of the research. A detailed method on how the research was conducted is important, in order for the reader to decide whether the research has been objective (Shenton, 2004). Also, the authors have to make sure that the result comes from the participants who provide the researchers with information, rather than the result coming from the researcher's beliefs. Additionally, Shenton (2004), also mentions the "reflective commentary" as an important mean of dealing with confirmability.

As stated above, the authors of this thesis have written a detailed method section and explained step-by-step how the research was conducted. Throughout the research, the authors have been reflective and critical to findings and methods used.

### **3.7 Interpretation of the data**

Lofland (1971, p. 62) argued that it is suitable to "provide an orderly description of rich, descriptive detail" or in other words – to interpret the data. Patton (2002, p. 480) defined interpretation as "attaching significance to what was found, making sense of findings, offering explanations, drawing conclusion ... imposing order on an unruly but surely patterned world". In this thesis authors interpreted rich data in order to make sense of what was found, offered explanations and drew relevant conclusions. Patton (2002), by judging from Schlechty and Noblit (1982) conclusions, explained that stakeholders of any research expect three things:

"(1) Confirm what we know that is supported by data, (2) disabuse us of misconceptions, and (3) illuminate important things that we didn't know but should know. Ac-

complishing these three things and those interested in the findings can take it from here”.

Authors of this thesis have found a lot of data that confirmed findings derived from theoretical framework. Additionally, authors also managed to find important things that were not stressed by previous research, such as the fact that a “Subway” restaurant can be creative as long it implements innovations outside the “Subway” restaurant. Thus, the stakeholders are left free to judge these findings and make their own interpretations.

## 4 Results

*In this section the authors will present the result of the research. This result has been categorized under different headings in order to increase the readability.*

### 4.1 Current relationship with SST's

#### 4.1.1 Max

Max Ekhagen (the newest Max restaurant located in Jonkoping which opened up in September 2010) is the only Max restaurant in Jonkoping which already has a SST implemented. An “express-cashier” where customers can order and pay via a touch-screen and then receive their order at another cashier. From day one, the SST has been running in the restaurant and improved the ordering process for customers, M3 said. The primary benefit of using this SST is that it increases the speed of orders with the secondary effect that it also decreases labor costs since it replaces up to three normal cashiers, M3 explained. M3 only saw benefits with using the SST, except in the beginning when some employees left their normal cashier in order to serve the SST cashier. The SST has the highest ranking of all the different cashiers at Max (1. SST, 2. Drive-In, 3. Normal), however M3 said that “even though it is our highest priority, the other customers should not be left alone.” This kind of SST is part of a specific Max restaurant model which exists at around seven other locations in Sweden, according to M3. M3 said that the installation of the SST was already made when he became manager at Max Ekhagen, therefore M3 did not have any power over the implementation.

The other two Max restaurants have had visits regarding the possibilities for a SST-implementation, however, no implementation has been made due to lack of space, according to all the local Max restaurant managers. When asking about the lack of an “express-cashier” both M1a and M2 pointed at the regular cashiers and answered humorously: “We have four express-cashiers already”. M2 said that he had great knowledge about SST's in general, but not to work-related technologies. All the cashiers within Max, both SST and normal cashiers, are connected to a company in Lulea where the servers are located and where they store all the data, M2 said. The computers at the local restaurants are just empty shells, he continued. Even though the type of SST located at Max Ekhagen most likely will not be implemented at Max Herkulesvagen, M2 said that other types of innovations and SST's will most likely be implemented., for example

the ability to pay via Internet.. The people up in Lulea think ahead and about the future, he added.

#### **4.1.2 Subway**

Neither of the two Subway restaurants are currently using any form of SST, however S2 is aware of the existence within Subway and thinks it will reach Swedish Subway restaurants and Jonkoping in a couple of years: “It is like everything else, now it is a really big thing in the US, but it will not be here until 3-4 years.” he said. He mentioned the possibility to order online, which now is reality in Subway restaurants in the US, as an example. S1 was not familiar with any form of SST, neither was he aware of the possibility to order online in the US. When asked, S2 were not sure if he needed a SST, however “it will probably cause more good than bad”, he said.

### **4.2 Comparison with competitors**

#### **4.2.1 Max**

When discussing the restaurants strengths and weaknesses towards their competitors, M1b quickly made comparisons with McDonald’s.

*“McDonald’s make fast food and it works like a robot. No feeling, it is only about functionality and money. Max employees on the other hand, they work more as humans, with ups and downs but with more feeling in the food”, M1b said.*

Both M1a and M1b explained this difference with Max being a family owned restaurant and that it is easy for the personnel to know who is in charge. At McDonald’s the employees just work and they do not know who the top manager is, M1a continued. The strength, according to M2, is that Max is Swedish and all the decisions are made in Sweden.

Customers at Max are more willing to wait an extra minute for the food, therefore it is more likely to call Max a “restaurant” than to call McDonald’s a “restaurant”, according to M1b. When asking about any weakness within the restaurant M1a answers that Max market themselves as the best restaurant in Sweden, therefore no weakness can be men-

tioned. However, M1b made a comparison with the “robots” at McDonalds and said: “We are like a human, we have human weaknesses”.

#### **4.2.2 Subway**

The strengths at Subway are the fresh food and the ability for customers to see it, according to S1. Even though neither of the Subway-managers could recognize any weaknesses, S2 discovered an external problem: “Swedish customers are too nice” he said. American customers know exactly what they want and how they want it, S2 continued. “Swedish customers are not used to make their own decisions when it comes to eating, instead they look at a menu and want to choose from it.” he added.

### **4.3 Communication**

#### **4.3.1 Max**

While discussing the company-owned structure within the restaurant, M1b explained that there exists one Max franchise, Max Arlanda. Max is also currently broadening their operation into Norway, where a Norwegian family-owned company has bought the franchising rights, M1b said. However, staff from Max Sweden will support the new franchisee during the start up process, M1a added. M1a and M1b then continued to talk about why it do not exist that many franchisees within Max and concluded:

*“It is because everyone in the company is concerned about the brand. For example, almost every manager within Max is recruited from within the company”* M1b said.

Continuing with talking about their contact with higher managers, M1a said that she should have better contact with their regional manager, but that they do have weekly meetings every Monday. There will be a change in the region and a new manager will be added and located in Jonkoping, M1a said. Both M1a and M1b hoped that this change will improve the contact with the regional manager. The owners of Max usually visit the restaurant once or twice per year, M1a said. A monthly newsletter is also sent out from the higher managers and if they have done something really good, the restaurant will receive an additional e-mail. Even though there is room for more communication between the local and higher managers, M1a did not feel that there existed a need for any change regarding the communication.

M1b talked about rewards and encouragement and stated that it did not really exist, however it was always possible to bring new ideas to the table. Everyone had the ability to send ideas to the higher or top managers and receive a response. Max also has a company magazine with greetings from every district manager as well as greetings from other personnel which is distributed quarterly, he said. M1a continued to talk about the vertical integration and said that if they had any problems or issues they could easily talk to their higher level managers. First, local managers are recommended to talk to their regional manager, and if that do not work it is possible to, in worst case go to the owners directly, M1a said. “The regional manager of Jonkoping has a position in the Board of Operations of Max, therefore it is very easy to share any opinion or thought with the top managers” M2 added.

Addressing the horizontal communication among the local management, M1a said that:

*“Regional meetings for managers are held quarterly, with all the managers within the region. Larger meetings and conferences with every Max restaurant manager in Sweden is held once a year, however during a startup process or when becoming a manager, more meetings and educations occur” (M1a)*

Both the vertical and horizontal contact was perceived as good, according to both M1a and M1b. The local managers had more horizontal contact but received good response from higher level managers as well, M1b said. Something that M2 confirmed. The managers in Jonkoping meet on monthly basis to discuss the current situation and to plan for the future. The Max personnel in Jonkoping also play floorball on regular basis, according to M2.

Within Max it is also possible for the employees to transfer between the restaurants, M1b said. When a new restaurant is opening up, employees from nearby restaurants will assist the new restaurant with workforce and education during the first couple of months, M1b continued. M1a added that when she felt insecure she could call M2 and ask for help. Something that occurred nearly on a daily basis, according to M1a.

### **4.3.2 Subway**

The vertical communication within Subway was perceived as good, according to both S1 and S2. They both felt that they got the support they needed from higher level management.

However, in the beginning S1 did not have as much support because “the development agents were old and tired, but the new agents are better.” S1 said. S1 continued to say that the development agents made monthly check-ups to see if the restaurant was following the rules and standards. RS confirmed that monthly visits were made and added that it was mainly to ensure that the restaurants were following the operations manual (internally called “the Subway Bible”).

Daily e-mail contact between the headquarters and the local restaurants also existed, according to S1. S2 agreed that frequent e-mail contact existed, but used the description “minimum once a week” when asked how frequently. When asked about the purpose of these e-mails, S2 explained that e-mails were used for communicating all kinds of issues that were of particular importance to local and higher level management and could include marketing campaigns, news from headquarters, problems, suggestions etc. When discussing this type of communication, S2 said that he was very satisfied with it and claimed that e-mails was a good way to reach the higher level management. Mainly because of two reasons; (1) it was a two way communication, meaning that both local and higher level management could use e-mails to communicate with each other and (2) e-mails were frequent, with fast responses from higher level management. S1 agreed and did not see any problems with the e-mail communication.

Another form of communication that existed within Subway was phone-conferences that occurred four to five times per year and included all the franchises in the south of Sweden, according to S2. Both the franchisees were satisfied with this type of communication as well and S1 added that “a lot will depend on what type of person you are. If you are more aggressive and like to express your opinion, then you will be better heard”. For “shy” franchisee managers, S1 added that e-mail communication always existed at their disposal.

S1 mentioned that they usually got information about new franchisees such as, how and where they were launched. In addition franchisees could also present new ideas. S2 added that sometimes during these conferences they could vote regarding important decisions. For example, franchisees in the south of Sweden recently voted for new rules on how to distribute advertising funds, according to S2. However, decisions that usually got made during these conferences focused on new sandwiches, coupons or other marketing related issues, according to S2. Even though general horizontal communication existed within the franchise, no local communication or collaboration was discovered. S2 mentioned that some attempts to collaborate had been made, however no one of the franchisees could explain why they did not collaborate.

All the franchisees in Sweden are divided into four parts: North, West, South and East. Each of these regions has a regional manager who overlooks the franchisees in that particular region and usually acts as a development agent for them, said S1. Annual meetings occurred once per year with all the franchisees and regional managers in Sweden. Sometimes during these meetings, franchisees voted for the implementation of a new innovation. S1 gave the example of the promotional campaign “Sub of the day”.

S2 said that, if he had any suggestions regarding improvements or innovations, he would try to get in contact with the regional managers in Gothenburg who then would try to contact the U.S. headquarters. He continued by saying that he sometimes called the managers in Gothenburg three to four times without any respond and that it was “generally hard to get in contact with them”. S2 also added that the regional managers in Gothenburg were the only higher level managers he came in contact with, unless he chose to contact the U.S. directly. This sometimes occurred when there was a problem with the checkout-system etc., according to S2. S1 said that when suggesting a new innovation he would contact the regional managers, however the regional managers would then contact the European headquarters in Holland, according to S1.

Initially, S1 said that he would contact the “development agent”. However, during a phone-interview with the regional manager, the regional manager explained that he was also the development agent. The regional manager/development agent added that the

recommended way of communication was through the European headquarter in Holland. However, he also added that “it is really not that clear... I would vote for Holland.”

Additionally, there existed two different types of national committees within Subway; a marketing committee and a product committee, according to RS. They discussed if any changes should be made within the assortment of the franchisees or if any other food- or marketing related changes should be made. RS said that the franchisees had more representatives in the marketing committee than in the product committee, due to a lack of interest for the latter one. RS further explained that the marketing among the franchisees was not controlled by Subway. “It’s a separate company...which is owned by all the franchisees” RS said.

Neither of the two franchisees knew about the existence of the product committee. They only knew that there existed a body which represents franchisees when it came to marketing and that franchisees can nominate themselves and get elected. S1 mentioned that he got this information in one of the e-mails sent to him.

Even though there are numerous ways how franchisees can communicate with higher level management, S1 and S2 assured that they did not feel confused because of that and they seemed to know exactly which channel to use in the any particular situation.

## **4.4 Innovation, changes and power distribution**

### **4.4.1 Max**

Talking about creativity and the innovation process, M1a said that “it comes from above, since they have time to think about it every day.” New innovations and non-local changes within Max, for example introduction of a new burger, will come from the headquarters, according to M3. The same if the grills need to be replaced, M2 added. Something that headquarters recently decided to do. The headquarters notified the local managers about it four months in advance and then came and installed the grills during two nights, M2 said. The new grills are part of a new cooking concept, where the old “slim-food” approach will be broaden into a gourmet way of thinking, according to M1b.

M1a admitted that unnecessary changes had been made due to decisions made by higher level managers and not by the personnel at the local restaurant.

M1b filled in that it was usually a great idea in theory, but very hard to solve in reality. The higher level manager came up with an idea and said: “This is how you should do it.”, but it does not work like that, M1a said. It is up to the local managers to solve the problem and make it work, M1b continued. The phenomenon of unnecessary changes is something that sometimes occurred for M2 as well. “But you get used to it” he said. M2 said that he had pretty much control over these situations and added that he had the possibility to share his thoughts and opinions with higher level managers.

*“I am not sure if they listen to me, but at least I can say what I am thinking”*, M2 said.

When asked if there existed anything they would like to change within the restaurant, M2 said that he would like to make some small changes and mentioned the drive-in as an example. “But it is not my wallet”, he added.

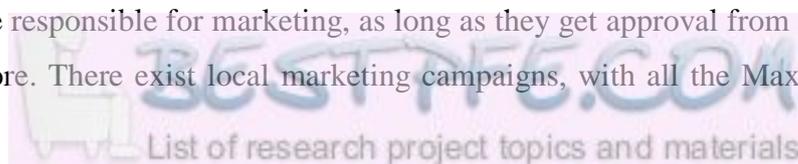
Overall, both M1a and M1b were satisfied with the decisions that came from higher level managers, however some specific changes or improvements took too long time to be made. For example, a new ice-cream machine. “It breaks down every summer.” M1a said. M1a continued to say that Max Jordbrovagen is the oldest Max restaurant in the south of Sweden, therefore higher level managers should get them a new ice-cream machine, according to M1a.

Asking about their personal interest of having more power, M1a answered “Not right now, ask me in a year”. M1b answered that:

*“It is important that Max maintains control over the restaurants and keeps every restaurant the same, otherwise every restaurant will look different. It should be the same all over so that a customer can eat and experience the same everywhere”* M1b said.

However, “Stockholm is Stockholm” M1a said and referred to that the restaurants in Stockholm sometimes introduces new hamburgers that are not served in the rest of Sweden.

Talking about the decision making process, M1b explained that the local restaurants themselves are responsible for marketing, as long as they get approval from higher level managers before. There exist local marketing campaigns, with all the Max restaurants



located in Jonkoping. No marketing is made individually for one single restaurant, M2 said. The need for higher level manager's approval also takes place when it comes to making other changes within the restaurant, although "minor" changes can be made within the restaurant without the approval from higher level managers, according to all the Max restaurant managers. During the interview with M2, he revealed that a change becomes "major" when the cost exceeds 10 000 SEK. However for a change around 9000 SEK he will need to provide good arguments for it, he added. It also depends from person to person, M1b said:

*"If a manager have been working at a restaurant for 10 years and someone else is working on a trail employment, obviously the experienced manager will get more power over making changes"* M1b continues.

#### **4.4.2 Subway**

The manager in Amsterdam, AM, alleged that a lot of innovations came from the franchisees and mentioned the tremendously successful "5 dollar footlong" campaign. RS confirmed AM's argument by stating that all the ideas that reached the food and marketing committees were initiated from the franchisees. RS said that his communication with franchisees was more formal and revolved around compliance to the standards and rules which were stated in the operations manual. S1 could negotiate and argue for a change that seemed to be unnecessary and then reach a compromise with the development agent. However, creativity could not violate the regulations set up by the operational manual.

*"They can't tell me to put the table in the middle of the room, but if I had a soda in the fridge that I was not allowed to have they would say that I have to take it away, I would not have anything to say about that."* S1 said.

RS explained how the innovation process would look like if a franchisee would like to reach out with a new idea to the top management. The idea would first reach the product or marketing committee then, after an evaluation of the idea and if considered interesting, the idea would be forwarded to the U.S. headquarters. The U.S. headquarters would then make a decision regarding the new idea. In some cases, the decision of a national voting among all the Swedish franchisees would take place, and then replace the evaluation made by the committee. However, the final decision would still need to be made at

the U.S. headquarters. These new ideas will then be implemented to all the franchisees, with some exceptions within marketing related issues, according to RS. S2 mentioned an example with a meatball sandwich, where the managers voted for it, with a majority of the managers being against it. This led to the meatball sandwich getting removed from all the Subway restaurants. “They had to remove it completely so there won’t be any collision, because it is a chain after all”, S2 said. However, sometimes different campaigns occur with selected restaurants around Sweden. As an example, a campaign offering a foot long sandwich for 55 SEK was launched at selected restaurants. The regional managers asked S2 if he wanted to participate in this, something that he chose to do, S2 said.

Thus, even though RS was keener to articulate Headquarters in Amsterdam as a final recipient of a new idea, he was at the same time certain that new idea should go to U.S. for the final decision. According to the article published in *Franchise International* website Graham (2006), Headquarters in Amsterdam were established to manage growth and supervise operations of European franchisees. A manager responsible for customer service and communication in Amsterdam Headquarters did not give much information about the functions and the purpose of these headquarters.

Discussing the decision making process at Subway, S2 said that every decision came from higher level managers “They decide it, we do it”, he said. When S2 wanted to make any changes on his own within the restaurant, using opening hours and furniture as examples, he first needed approval from the regional managers in Gothenburg, he said. He added that no changes except the opening hours have been made within the restaurant during the last six months. S1 confirmed the need for approval with higher level managers and said that he could not make any changes without contacting the development agent/regional manager. “If a change would be made without the development agent’s knowledge there would be problems”, S1 said. RS agreed and said that everything should go through him. If changes would be made without his approval, it could lead to serious consequences such as termination of the franchising contract. When asked if the local managers would like to make any changes within Subway or if they want more power in general, S1 only mentioned marketing. He added that if every local manager had too much power all Subway restaurants would look different. It is impor-

tant for Subway to maintain control so that every restaurant looks the same, he continued. S2 mentioned that he had enough power over marketing and that it was more or less up to him when it came to dealing with it. S2 also mentioned that even though he did not have as much power as he could have had, he still had the amount of power that he wanted.

Talking about decisions made by the headquarters, S1 had experienced some unnecessary and sometimes “picky” changes. The light in the storage room was not placed according to the rules, S1 said. S1 wanted to install extra light in the restaurant, but instead the light had to be installed in the storage room due to Subway’s policies, according to S1. S2 also had experienced some unwanted situations and gave an example about local coupons (Subway-coupons that were only valid at the restaurants in Jonköping). A decision was made regarding distribution of local coupons, S2 was against the idea but chose to accept it in order to avoid any collision with the other restaurant and to not irritate or confuse the customers, S2 said.

According to S2 he did not need to ask the regional managers about, since it was not inside the restaurant. Installing the sunshade, S2 contacted a company on his own, sent them the Subway-logo and told them what color and size he wanted. When the regional manager then discovered the sunshade and the “outside serving area” they liked it and said that it was a good initiative, S2 said. S1 added that when it comes to outside, he could do whatever he want, but only if the material required for the innovation came from Subway. In addition, sometimes different campaigns occurred with selected restaurants around Sweden. As an example, a campaign offering a foot long sandwich for 55 SEK was launched at selected restaurants. The regional managers asked S2 if he wanted to participate in this, something that he chose to do, S2 said.

Regional managers/development agent’s role in innovation process is to: (1) check if franchisees are doing well and are complying to the standards and rules stipulated in operations manual, (2) mediate the ideas from franchisees to the headquarters in U.S. and Amsterdam, (3) participate in phone conferences and provide information about news and changes within Subway as well as listen to the franchisee ideas and sometimes carry out voting process, (4) participate in annual meetings where regional man-

ager provides information about future deals or future financial figures, (5) communicate frequently with franchisees through e-mails.

As mentioned before, food and marketing committees exist within Subway. According to RS, these types of committees exist in every country. Committees deal with questions regarding the food and is responsible for everything that is served in the restaurants, RS said. Within these committees, elected representatives from the franchisees, together with national managers will meet and discuss future changes and innovations together with general thoughts and ideas, RS continued. RS said that if committees decided on a great idea, they would need to contact the U.S. to reach their approval. If they said “Yes” then committees would have the power to implement the decision in all franchisees. However, RS also mentioned that if committees were not sure about the success of the idea, they would present the arguments against it to the headquarters and ask them for a permission to vote. If U.S. said “Yes”, then committees would initiate the voting process among all the franchisees in Sweden, which was carried out in annual meetings. RS continued saying that every single idea which was discussed within these committees came from the franchisees themselves. Some of these ideas are then voted for at the regional/national meetings with the franchisees, according to RS.

S1 mentioned that if a franchisee got a place in this committee, he/she would pay lower advertising fee.

RS said that almost every decision should reach U.S. headquarters approval. All the ideas discussed in the food and marketing committees would have to go to U.S. for approval. AM said that “If a franchisee in any country comes up with an innovative idea, we will encourage them to contact HQ with the idea”

## 5 Analysis

*In the analysis, the authors will combine the theory and findings in order to extract as much information as possible from the findings.*

### 5.1 Max

#### 5.1.1 Communication

After interviewing the managers in Jonköping, an overview of the current situation appeared relatively clear. Vertical communication existed on a satisfying level for the local management. More communication could exist, however the managers did not feel any need for it. Like in any other managerial position, the managers were expected to take own initiative and make own decisions when it came to day-to-day operation. This is all part of being a manager. Obviously, higher level management received updates and acted as support to the local management when it came to larger decisions or future changes. Within Max organization, a Board of Operation existed in order to control the day-to-day operation, plan for future events and being responsible for the restaurants themselves.

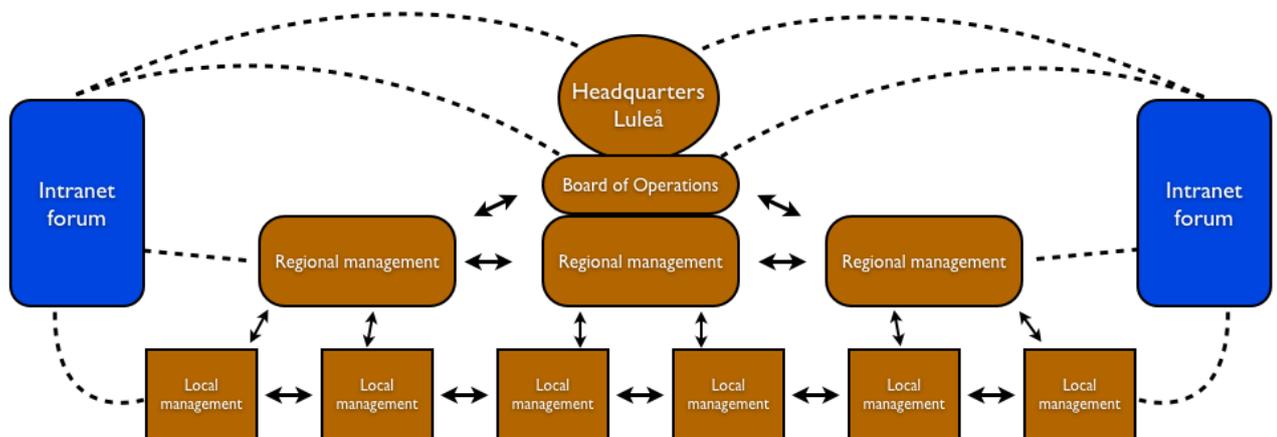


Figure. 2 Max communication schedule

---- = Non-personal communication

<-> = Two-way communication

*Figure 2 illustrates the impression the authors got after interviewing the local management in Jonköping regarding the communication within the organization. Addressing the owners directly was possible for the local management, however this was not recommended and should only occur in “worst case scenarios”. Therefore, this part has been left out of the table.*

## **1. Headquarters**

The headquarters located in Lulea controls the entire organization and every major decision will take place here. The headquarters is responsible for the final result and progress within Max.

## **2. Board of operations**

The Board of operations controls day-to-day activities and the restaurant themselves. Any change or innovation that affects the restaurants and their daily operation will be decided here, however final decision and approval will come from the headquarters. The Board of operations consists of regional managers together with staff closely connected to the headquarters, which makes it easy to communicate with both higher and lower levels in the organization.

## **3. Regional managers**

All the Max restaurants are divided into regions, according to their geographical location. The restaurants in a specific region will then share a regional manager, who will work as a mediator between the local restaurants and higher level management. Smaller decisions, that the local manager feel insecure about can be decided directly by the regional manager.

## **4. Local manager**

The local manager is responsible for his/her restaurant and employees. The local manager controls the daily operation in the restaurant and works “on the floor” together with the rest of the employees. The local manager also reports all statistical data regarding the restaurant revenue and result to higher level management, together with being the one responsible for the implemented innovation.

## **5. Intranet forum**

Max has a company intranet that works as base for internal communication, or a web that connects every layer within Max. Here the employees, local- and regional management together with the headquarters can discuss everything that is on their mind. The intranet is the recommended way of communication when non-urgent situations occur. Additionally, the local management can discuss problems and situations with other

managers and co-workers, together with searching for existing solutions for a specific problem. In this way, problems can get solved faster and smoother than via the personal communication.

General horizontal communication between the restaurants was also perceived as good, however it existed more locally. Not only were the employees aware of the other restaurants within the city, the employees of these restaurants met during leisure time and participated in activities provided by Max. Work exchange also occurred between the restaurants when additional workforce was needed at a specific restaurant. Regional and national meetings were also held regularly with all the managers at Max, where the managers discussed larger changes and problems, talked about the future and gave each other tips and support.

### **5.1.2 Power**

Rubin (1978) stated that in order to maintain control over the brand, it is in the best interest for the franchisor to demand uniformity among the chain. After interviewing the local managers at Max, they all presented the same mindset. Even though Max is not a franchise, it was still important for them to maintain control over the brand and that they supplied the same food and service in all their restaurants. Even though local management was not allowed to make major innovations or changes on their own, bringing new ideas and suggestions to the table was highly appreciated.

Having power and influence over new changes was something that Wilson (2009) said should be earned and that it takes time and experience. This was also the case within Max. An experienced manager would have more influence and respect when it came to new ideas and changes, than a new manager. Currently, one of the managers in Jonkoping asked the more experienced manager in a different restaurant located in Jonkoping for advice before contacting higher level management. Therefore, the more experienced manager would have more (indirect) influence when it comes to new innovations and changes within Max, than the less experienced manager.

New ideas and innovative thinking was also highly recommended when it came to marketing, since the local management was responsible for marketing. This was something that Baucus et al. (1996) said often was seen within franchisees. However, no individual

marketing was made by one single restaurant. All the Max restaurants in Jonkoping worked together in order to market their restaurants and the brand. In order to increase the motivation for innovative thinking, Shane (1994) suggested the presence of rewards and product champions. No reward was recognized within Max, however everyone was encouraged to share their ideas with higher level management.

According to Miller (1983) several entrepreneurial strategies can beneficially be used within a company in order to be more innovative, such as pro-activity, propensity to take some risk and promoting innovation. No incentives such as reward or promotion was recognized within Max, however every employee had the opportunity to share their thoughts and ideas with their managers and co-workers.

### 5.1.3 Roger's diffusion of Innovation, at Max

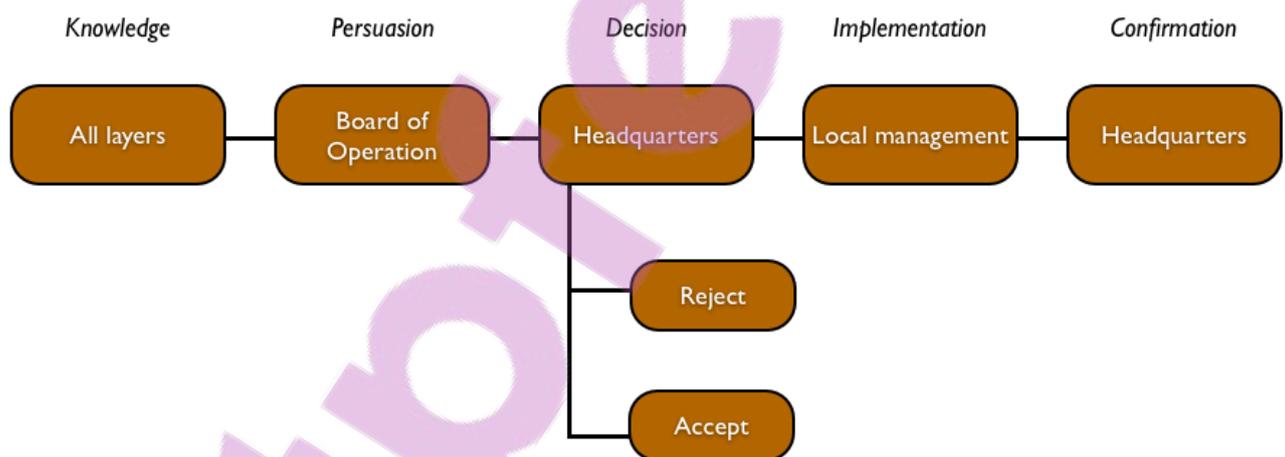


Figure 3. This table illustrates the impression the authors got after interviewing the local management in Jonkoping regarding the process of new innovation within the organization. Not every decision regarding a new innovation goes through the Board of Operation. However, in this case, innovation in form of a SST works as an example and will represent the process of new innovation. (If the innovation is marketing-related, the board of operation will then be replaced with the marketing department within the company etc.)

## **1. Knowledge**

Knowledge regarding SST's was noticeable during the interviews with all the local restaurant managers. Everyone knew about SSTs, however no-one of them had investigated it further. Individually they had more or less knowledge about SST and managers who did not currently use SST's in their restaurant were familiar with the concept from other restaurants.

## **2. Persuasion**

The process of the individual actively seeking for information was not shown by the local management being interviewed. Talking to a local manager who was very interested in technology and innovation in general, he revealed that he did not put any effort or thinking into work-related innovations or new technology. Neither of the managers at the Max restaurants had really strived for getting a new innovation in form of a SST. The manager at the restaurant who currently uses a SST said that the SST was there when he became manager, but admitted that it was a great asset for the restaurant. The managers in the restaurants without a SST were more or less neutral towards a future implementation and said that there was no existing need for it.

The Board of Operation on the other hand, actively searched for more information when it came to innovations and other things that will improve the operation. The Board of Operation then sorted out all relevant information in order to see if there existed any interesting innovation that could be implemented in the restaurants. The Board of Operation will then inform the headquarters about the innovation and possibilities of implementation.

## **3. Decision**

After receiving information from the Board of Operation, the headquarters will then decide whether the innovation will be rejected or accepted.

## **4. Implementation**

When it comes to implementation, local management will have greater responsibility in the innovation process. Since the innovations are implemented in the local res-

restaurants, the local management will be the ones in charge of the innovation after the implementation. However, sometimes unnecessary changes have been made which only seemed to complicate things. These changes had been implemented in the restaurant, analyzed by the local management and then fixed, modified or removed if the local management felt a strong need for it. The implementation worked as a try-out stage, where theoretical ideas and innovations suggested by the Board of operation and headquarters were tested in the local restaurant. If regarded “unnecessary” or “complicated”, these changes could be taken away and operation would then be changed to the original routine. However, when it came to some changes the local management and employees had to accept the situation and continue their day-to-day work according to the new changes.

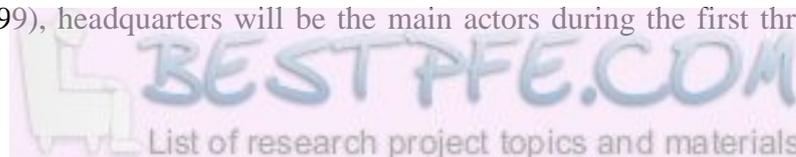
Even though Max strived to make all their restaurant consistent, with every menu and restaurant looking as similar as possible, some differences occurred. When it came to new innovations, the restaurants located in Stockholm would be the ones implementing the innovation first. If shown successful, the innovation would then be implemented in other restaurants located around Sweden.

## **5. Confirmation**

After receiving feedback from the local management, the headquarters would make the final decision regarding the implementation. Local management felt that they had some power over the final decision. They were free to speak about their thoughts and opinions regarding the implementation process (see step 4). However, the final decision was the headquarters to make and whether they had taken all local management’s thoughts and opinions in to consideration was not known by the local management.

### **5.1.4 Examination of previous research**

By comparing the findings of this research with findings of Lewin-Solomons (1999), mostly similarities occur. However, some minor differences regarding the first step of Roger’s Diffusion of Innovation (Knowledge) was discovered. According to Lewin-Solomons (1999), headquarters will be the main actors during the first three stages in



Roger's Diffusion of Innovation. However, overall knowledge about innovation existed in all layers within Max and the main actor when it came to persuasion was the Board of operation. Even though there existed a strong connection between headquarters and the Board of operation, the Board of operation would still be seen as an independent part within the organization. In the last three stages, (Decision, Implementation and Confirmation) the process corresponds with the research of Lewin-Solomons (1999). Decision regarding implementation together with final confirmation of the innovation will be made by the headquarters. In between, the innovation will be implemented at the local restaurants where the local managers will be the ones responsible for the operation and provide feedback to the higher level management and headquarters.

## **5.2 Subway**

### **5.2.1 Communication**

When asked, both franchisee managers expressed issues regarding the communication within Subway. Issues such as problem with reaching higher level management and un-supportive development agents. However both of the franchisee managers felt that they had a satisfactory communication and support from higher level management.

One of the important tools for franchisees to be able to communicate with higher level management was the existence of an advisory council, according to Dane (1992), Dandridge (1994) and Lewin-Solomons (1999). In the U.S., the SFOAC (Subway Franchise Owners Advisory Council) represented the franchisees, together with collecting and summarizing feedback, thoughts and opinions from the franchisees. This made it easier and more efficient for the franchisees to influence the headquarters. No equivalent organization or council existed in Sweden, according to the local management. However, one of the franchisees pointed out that one of the Swedish franchisee managers would be elected as a representative for the franchisees. The view from the regional manager differed. He claimed that two committees existed where franchisees had high influence over two specific topics, marketing and food. The aim was to have a large portion of franchisees representatives in both committees. However, due to lack of interest, the food committee did not have that many franchisee representatives.

Even though one franchisee was aware of an election procedure of a franchisee marketing representative, no knowledge regarding the product committee was recognized. This

clearly confirmed the statement by the regional manager, who said that there existed a lack of interest among the franchisees regarding food-related issues. Thus, it was evident, that franchisees did not utilize representative bodies to their fullest potential, therefore hindering the effective communication with higher level management.

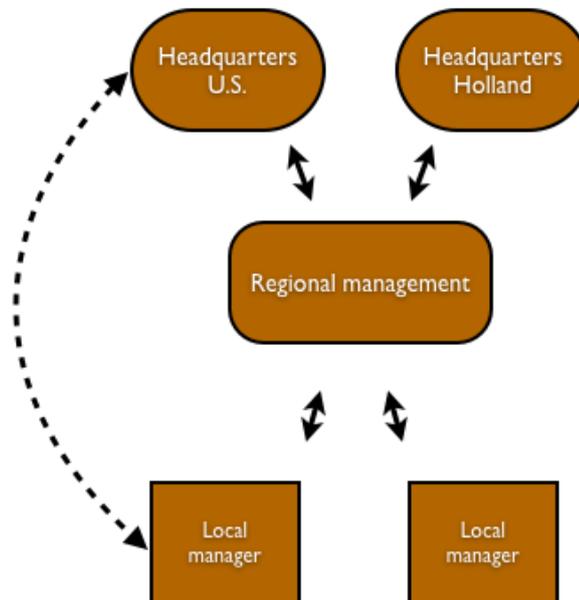
Local management perceived emails as a one of the best communicational tools. They happened frequently and specially served as a great tool for managers that felt more “shy” communicate ideas in person.

During phone conferences all managers of south of Sweden were participating in the discussion. In this way, franchisees could communicate their ideas to regional manager and also share opinions between other restaurant managers. One of the franchisees mentioned that the best tactic was to be aggressive in these meeting so that franchisee ideas would be better heard by the regional manager.

These two ways of communication served as complements for franchisee managers. Franchisees could choose a way which best suited their needs and personality. Additionally if some managers failed to communicate their ideas and opinions during these meetings, they always could use email communication in order to compensate for unsuccessful phone conference.

Figure 4. Subway communication schedule

*This figure illustrates how local managers perceived the internal communication within Subway.*



When asking the local managers how their ideas regarding innovations would get transferred up to higher level management most efficiently, some differences were noticed. Both managers agreed that the first step would be to talk to the regional manager, however the communication could then take two different ways. One of the local managers said that it would be forwarded to the European headquarters in Holland while the other local manager said that it would go to the company headquarter in the U.S. When confronting the regional manager, he said that contacting Holland would be recommended way. However, it was not that clear. It is clear that there existed an amount of confusion how franchisees and regional managers perceive communication patterns in “Subway”. This confusion is not only apparent among franchisees, but also higher level management. This might be explained by the fact that most of the communication takes places between franchisees and regional managers, therefore the broader picture of communications becomes somewhat scattered.

An interesting finding was observed when interviewing the regional manager. He mentioned that Amsterdam headquarters would be the recommended recipient of a franchisee idea. However, when he was talking about where ideas should be forwarded after

committees agree on them, RS said “U.S.” without any hesitation. This just further confirms the fact that communication between managers in Sweden and top managers in U.S. is less clear and consistent. Horizontal communication exists less frequently than vertical. Meetings with the restaurant managers in South of Sweden together with additional phone conferences were the only signs of horizontal communication that was detected within the company. Local collaboration was recognized as almost non-existent. One manager once felt “forced” to agree on a marketing campaign initiated by the other restaurant and the higher level management, in order to minimize the risk for irritated and confused customers.

### 5.2.2 Rogers Diffusion of Innovation applied on Subway

*This figure illustrates the impressions and findings the authors got after interviewing the franchisees in Jonkoping regarding the process of medium-sized innovations within the organization. These findings were then analyzed by using Rogers Diffusion of Innovations and visually illustrated as seen below.*

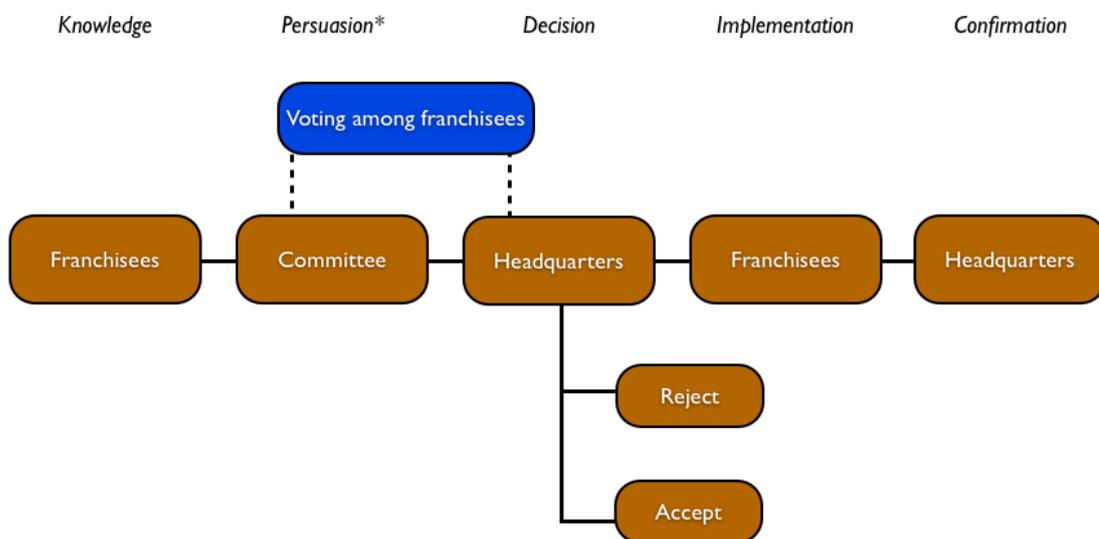


Figure 5. Rogers Diffusion on Innovation, applied on Subway.

Initially, a major innovation such as a SST acted as example for an innovation. However, the franchisees were not familiar with these types of innovations and the implementation process. Therefore, in order to maximize the relevant data provided by franchisees, the authors chose to shift example to a medium-sized innovation, in this case the

introduction of a new sandwich. Since both franchisees more easily could share their views and experience on this topic.

### **1. Knowledge**

Knowledge regarding medium-sized innovations existed within the franchisees. All the franchisees were aware of these types of innovations since it was a natural part of their daily operation. According to the regional manager and the communication manager in Amsterdam (RS and AM) most of the innovations and creativity came from franchisees. Thus mostly franchisees are responsible in the knowledge stage.

### **2. Persuasion**

Franchisees were not actively participating in the persuasion stage and they did not search for more information regarding these innovations. However, there exist two types of committees within Subway: Food- and marketing committee. These committees included higher level management as well as franchisee representatives, which continuously discusses changes and ideas regarding medium-sized innovations related to food and marketing. These committees received suggestions and ideas from franchisees and investigated further into these. If the committees, after gathering relevant information and carrying out the discussion, believe that an innovation could benefit all franchisees, the committees would then act as a mediator and contact the U.S. headquarters. When it came to issues that the committee felt uncertain about, or when additional thoughts and opinions were needed, a voting among all the franchisees in Sweden took place. The franchisees would then vote on if they supported the innovation or not. The result would then be sent to the U.S. headquarters.

### **3. Decision**

After being discussed in one of the committees, or voted for among all the franchisees, the idea regarding a new innovation would be sent to the U.S. headquarters which would make the decision.

#### **4. Implementation**

Due to the importance of consistency within the franchise, the innovations that got accepted by the headquarters had to be implemented in all the franchisees. Thus, the power would lie in U.S. headquarters, because franchisees would not have any power to reject the innovation. However, some decisions could be accepted as “optional” . In those cases, franchisees could choose either to implement the decision or not. Thus, in this case franchisees would exercise power over implementation

#### **5. Confirmation**

After the implementation, U.S. headquarters would be informed of the implementation and then confirm the innovation.

##### **5.2.3 Examination of previous research**

The innovation process regarding medium-sized innovations corresponds with the innovation process conducted by Lewin-Solomons (1999). Knowledge regarding the medium-sized innovations existed within all the franchisees and ideas regarding medium-sized innovations always originated from the franchisees. These ideas would then reach the Persuasion-stage, where committees were conducted with franchisees together with higher level management. Decision and Confirmation were both controlled by the headquarters, however franchisees had the power to vote for some innovations that the committee felt insecure about. The implementation itself was conducted within the franchisees and even optional in some cases. Therefore, a slight modification from the view of Lewin-Solomons (1999) was recognized while investigating the Diffusion of Innovation within the franchise. A larger amount of franchisee’s formal power existed within this study than in the previous research. However other than that, the two studies corresponded.

##### **5.2.4 The three Processes of Innovation within Subway**

*Within Subway, three different versions of the innovation (and change) process, depending on the size and coverage of the innovation, were discovered by the authors. In order to present these findings in such a clear and structured way as possible, the authors created the following figure (Figure 6) that visually shows how these processes were perceived by the authors.*

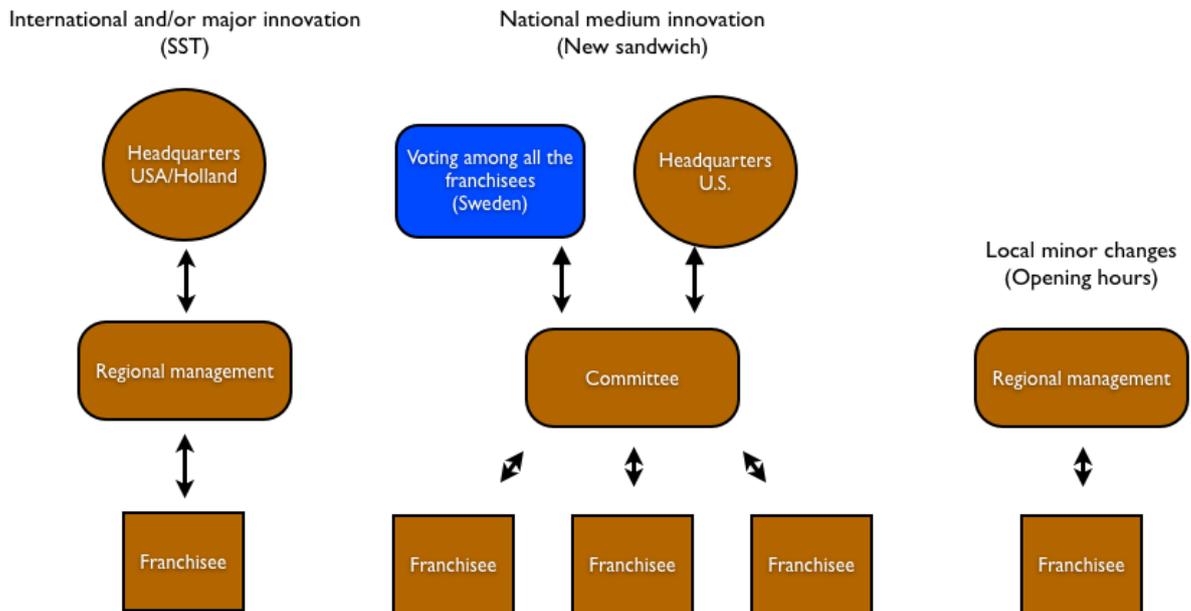


Figure 6. The Three Processes of Innovation

### 1. International and/or major innovations

When signing a franchisee contract, the local manager accepts some constraints set by the franchisor. Together with constraints mentioned by Dandridge (1994), such as establishment design, territory of service and products of sale, implementing other types of own innovation would also be considered breaking the regulations. Decisions regarding major innovations such as SST's would therefore be made in the company headquarters, and later forwarded to the franchisees through the higher level management in Sweden. Strict guidelines and rules are provided from the headquarters and need to be followed to its fullest. This is in order to maintain consistency within the chain, which is of high value for the company, according to Rubin (1978). However, nothing is mentioned in the guidelines regarding the exterior setting outside the restaurant. This made it possible for one of the local managers to install an "outside serving area" together with a sunshade on his own initiative. This was allowed even though it would be considered as a significant, visual change that violated the regulations if implemented inside in the restaurant.

### 2. National medium-sized innovations

As mentioned by Gallouj (1994), there exist different types of innovations, such as architectural innovations and modifications. Additionally, Sundbo, Johnston and Mattson

(2010) said in their research that innovations made by franchisees mostly were in terms of incremental innovations. Findings from Subway correspond with the results from Sundbo, Johnston and Mattson (2010), where a modification in terms of the removal of a sandwich took place.

By looking at Rogers Diffusion of Innovation, applied on Subway (Figure 6), it is fair to say that the individual local manager has more or less no power over implementing new medium-sized innovations on their own. However seen as a union, the franchisees had a greater amount of power, especially within food and marketing, due to the franchisee representatives in the committees. Baucus et al. (1996) confirmed that this was common within franchising and said that franchisees often were encouraged to innovative thinking, specifically within marketing and product development.

### **3. Minor changes**

When it came to minor local changes, such as opening hours, local managers felt that they had a greater amount of power. However the change had to be clearly motivated and regional managers had to be informed and approve the change.

#### **5.2.5 Individual Entrepreneurship**

Even though Dandridge (1998), Furquim De Azevedo, (2010), Sundbo, Johnston and Mattson (2010) compared franchisees as independent entrepreneurs, both the local managers in Jonkoping emphasized the importance of control from the headquarters. In order to protect the brand and to certify that all the franchisees within the chain supplied the same product, control from the headquarters was necessary. However, analyzing the answers given by the local managers, they perceived to have different degree of power within the innovation process.

As mentioned, Baucus et al. (1996), said that franchisees are encouraged to innovative thinking, which was confirmed by one of the franchisees, S2. After installing an “outside serving area” on his own initiative, he received positive feedback from the regional manager. This would provide the franchisee with the encouragement to be more entrepreneurial, proactive and independent in future situations as well. Also, he did not hesitate to contact the headquarters in the U.S when something could not be solved by the regional managers. Additionally, he felt more or less in control when it came to marketing and perceived that he had the amount of power that he needed.

In contrast, studies by Bradach, (1997), Kaufman and Dant (1996) saw franchisees as “controlled self-employees”, risk averse and that they were entering into franchising in order to buy a secure job. This reflected the impression the authors got regarding the other franchisee, S1. No initiative regarding new innovations was found. Instead, the franchisee relied more on the regional manager’s suggestions and support rather than on his own judgment. “If an implementation would be made without the headquarters knowledge there would be problems” he said.

Thus, findings suggested that even if the headquarters imposed a great amount of control over the franchisees. Local management had some power over implementing innovations and changes. Especially when seen as a union, they had their highest amount of power over issues regarding marketing and food. Local changes made on the initiative of local management also existed. However, it depended to a great extent on the mindset of the local franchisee managers and if they were entrepreneurial and motivated to use the power or not.

### **5.2.6 Control over franchisees**

Bradach (1997) in his study of 5 fast food chains found that checkups on franchisees were usually carried out on average once per year. However, in the “Subway” case, the check-ups are more frequent, usually carried out every month to see if the restaurant is following the rules and standards. In addition, the Regional manager said that communication between development agents and franchisees are carried out more in formal fashion. Thus, in Subway case, franchisor imposes a lot of control over franchisees even though the number of franchisees is very high and according to Bradach (1997) and Lewin-Solomons (1999) they should be less controlled.

## 6 Conclusion

*Here the conclusion of the authors will be addressed.*

This study confirms previous research which saw franchisees as being “controlled self-employees with encouragement to be innovative”. Innovational thinking existed to some extent within the franchisees. However, constraints from the company headquarters limited the possibility for innovation regarding the restaurant and its assortment. A larger amount of power, especially within marketing and food, was discovered when seeing the franchisees as a union. In comparison, managers in company-owned outlets were more independent than franchisees, when dealing with minor changes.

Therefore, the authors of this thesis state that the effect of the innovation process has a positive relationship with the amount of power distributed to the local management. I.e. in areas where the local management had a greater amount of formal power, local management also had a greater amount of affect in the innovation process. However, these areas differ depending on the organizational structure. Franchisees showed the highest amount of power within medium-sized innovations, while managers of company-owned outlets showed the highest amount of power within minor innovations.

When it came to effectiveness of communication, the managers in all the franchise and company-owned outlets perceived being satisfied with the existing communication towards regional management. However the authors of this thesis discovered that the efficiency within the communication between local management and top level management differed. Managers in company-owned outlets had a closer connection towards the top level management, than the franchisees. Additionally, the authors discovered that communication and collaboration that existed between the company-owned outlets were lacking between the franchisees. Instead, franchisees acted individually and saw each other as competitors. This led to unnecessary communication with higher level management taking place, with the consequence of higher level management being unable to focus on the more important issues. By implementing more horizontal communication and collaboration between the franchisees, it is in the authors beliefs that the effectiveness of the communication would be largely increased.



Therefore, the authors of this thesis state that even though the communication within the two fast food restaurant chains were perceived as satisfying and overall efficient among the local management, there exist an opportunity for improvements. Especially within the franchise system where an increased local communication and collaboration would lead to more efficient communication throughout the entire organization.

## **7 Discussion**

*Here the authors will discuss the research and topic further and additionally suggests further research.*

This thesis brings forward the role of the local management when it comes to the innovation process. Previous research mainly focused on the franchise system, while this thesis mainly focused on the role of the local management, including both franchisees and company-owned outlets. From the findings in this thesis the authors believe that the previous research on franchise organization can be applied to company-owned outlets as well. Even though Max is fully company owned it shared many similarities with a franchise system. Communication within the franchise lacked the efficiency that was present within the company-owned organization. Although franchisees had a greater amount of clear power regarding national, medium-sized innovations (especially within marketing and food).

Possibly this could be affected by the size of the companies. Of course Max which only operates in Sweden does not have the same issues regarding different cultures and countries that Subway has to deal with. Hence the communication and organizational structure in Subway should look more complicated than in Max. However the authors of this thesis do not believe that Subway has reached their potential when it comes to communication.

By improve the horizontal communication, authors believe that the efficiency of the entire internal communication within Subway will be improved.

By the authors own experience, efficient internal communication is one of the corner stones of a successful operation. Regardless if it is a national fast food franchise or a bachelor thesis within Business administration, efficient communication is something that is just as important as obvious.

### **7.1 Suggestions for further research**

As this thesis is conducted in Jonkoping, Sweden it includes two Subway-restaurants and three Max-restaurants. Therefore it would be interesting to expand the research to include a larger sample of restaurants. Additionally, Max is currently launching a fran-

chise-program in Norway. When this program has gained enough experience, it would be interesting to replicate this study by using both company-owned outlets and franchisees of Max.

Furthermore, research regarding the role of local management within a franchise could be extended. The authors found a lot of research regarding franchise organizations; however in a larger organization it can be easy to forget about the local aspect. It is the local management and personnel who represents the company and deals with the majority of customer contacts. Hence it is the authors' beliefs that the local management would play a major role when it comes to innovation and entrepreneurial thinking.

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## Appendix 1

### Questions for Max

#### General, operational questions

How long have you been working as manager at this restaurant/company?

What is your strength/weakness, in comparison with the other fast-food restaurants in Jonkoping?

How would you describe your relationship with the other Max restaurant in Jonkoping? (Competitors, "teammate", "just another restaurant"?)

#### Innovation

Where does the creative process usually come from? (From restaurant or from the headquarters?)

Do you have to call the managers or have their consent when you want to change even a slightest thing or you have some independence over certain things?

Even if you know that you need headquarters consent, do you still feel that you could implement the innovation by yourself without angering the headquarters?

Has there been any innovation, changes recently in Jonkoping or Swedish Max in general (within the last 6 months)? If so what and who made the decision regarding the changes?

Does Subway provide some rewards/opportunities to motivate you in order to come up with ideas for improvements? (ex. provide seminars, meetings, conferences, workshops, bonuses etc?)

Is there anything that you want to change within the restaurant if you had the power?

#### SSTs

Have you ever thought of implementing a SST, \*explain SST\*?

Would you regard an SST as a major change?

When making major changes within the restaurants, such as implementing SST's, expanding the restaurants, new food etc. How does the decision making process normally looks/would look like?

#### Perceived power of restaurant managers

Have you ever thought that an un-necessary/negative change has been made within the restaurant, as a demand from higher ground?

How did the process turn out? i.e what happend with the change, was it fully implemented?

Would you like to have more power over making decisions?

Do you think that will benefit the whole system or maybe only the Swedish franchise system?

How often are you in contact with your manager? (e-mail, phone-contact and personal contact)

Do you feel that your thoughts, opinions and ideas are taken seriously, when contacting the higher managers?

## Appendix

Do you feel that you get the support you want/need from the higher managers?

When it comes to buying equipment. Do you buy it through Max or own suppliers?  
How exactly does the franchise concept work? Detailed with Max!

Are there any regional/national meetings (regularly), to discuss problems, new innovations etc?

## Appendix 2

### Frågor till Max

#### Generella, verksamhetsfrågor

Hur länge har du jobbat som chef på den här restaurangen/företaget?

Vad anser du vara era styrkor/svagheter, in jämförelse med andra dem snabbmatsrestaurangerna i Jönköping?

Hur skulle du beskriva er relation med de andra Max restaurangerna i Jönköping? (Konkurrent, lagkamrat, bara en helt annan restaurang?)

#### Innovation

Var kommer vanligtvis den kreativa processen ifrån? (Från restaurangerna eller mer från huvudkontoret?)

Behöver du ringa högre chefer eller ha deras tillstånd när du vill göra även de minsta ändringarna eller har du någon självständighet över vissa saker?

Även om du behöver huvudkontorets tillstånd, känner du att du fortfarande kan implementera innovationen utan att uppröra huvudkontoret?

Har det varit någon innovation eller generell ändring på senaste tiden i Jönköping eller Max i Sverige (inom de senaste 6 månaderna)? Om så är fallet, vem/vilka gjorde beslutet om ändringen?

Erbjuder Max några belöningar eller möjligheter för att motivera er att komma på idéer för förbättringar? (Ex. Erbjuder seminarier, möten, konferenser, verkstäder, bonusar etc.)

Är det något inom restaurangen som du skulle vilja ändra om du hade möjligheten?

#### SSTs

Har du någonsin tänkt på att implementera en SST, \*förklara SST\*?

Skulle du beskriva SST som en större ändring?

När beslut om större ändringar inom restaurangen, så som implementera SST's, utöka restaurangens utbud etc. Hur ser vanligtvis den processen ut/hur skulle den se ut?

#### Uppfattad makt av restaurang cheferna

Har du någonsin känt att en onödig/negativ ändring har gjorts inom restaurangen på order uppifrån?

Hur såg den processen ut? Vad hände med ändringen, blev den implementerad till fullo?

Skulle du vilja ha mer makt över beslutsprocessen?

Tror du att det skulle vara till fördel för hela Max i Sverige?

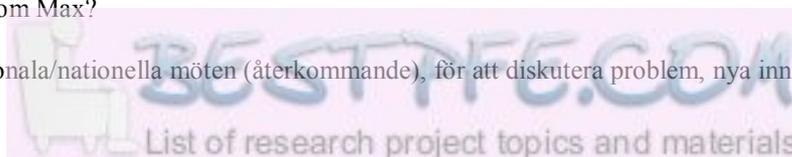
Hur ofta är du i kontakt med din chef? (e-mejl, telefonkontakt och personlig kontakt)

Känner du att dina tankar och idéer tas på allvar när du kontaktar högre uppsatta chefer?

Känner du att du får den support du vill ha/behöver från högre uppsatta chefer?

När det kommer till att köpa in utrustning/varor. Måste du köpa det genom Max eller egna leverantörer? Hur funkar det inom Max?

Är det några regionala/nationella möten (återkommande), för att diskutera problem, nya innovation etc?



## Appendix 3

### Questions for Subway

#### General, operational questions

How long have you been working as manager at this restaurant/company?

What is your strength/weakness, in comparison with the other fast-food restaurants in Jonkoping?

How would you describe your relationship with the other Subway restaurant in Jonkoping? (Competitors, "teammate", "just another restaurant"?)

#### Innovation

Where does the creative process usually come from? (From franchisees or more from the headquarters?)

Do you have to call the managers or have their consent when you want to change even a slightest thing or you have some independence over certain things?

Even if you know that you need headquarters consent, do you still feel that you could implement the innovation by yourself without angering the headquarters?

Has there been any innovation, changes recently in Jonkoping or Swedish subways in general (within the last 6 months)? If so what and who made the decision regarding the changes?

Does Subway provide some rewards/opportunities to motivate you in order to come up with ideas for improvements? (ex. provide seminars, meetings, conferences, workshops, bonuses etc?)

Is there anything that you want to change within the restaurant if you had the power?

#### SSTs

Have you ever thought of implementing a SST, \*explain SST\*?

Would you regard an SST as a major change?

When making major changes within the restaurants, such as implementing SST's, expanding the restaurants, new subs etc. How does the decision making process normally looks/would look like?

#### Perceived power of franchisee owners

Have you ever thought that an un-necessary/negative change has been made within the restaurant, as a demand from higher ground?

How did the process turn out? i.e what happend with the change, was it fully implemented?

Would you like to have more power over making decisions?

Do you think that will benefit the whole system or maybe only the Swedish franchise system?

How often are you in contact with your manager? ( email, phone-contact and personal contact)

Do you feel that your thoughts, opinions and ideas are taken seriously, when contacting the higher managers?

Do you feel that you get the support you want/need from the higher managers?

Do you know about the existence of the advisory council in Subway.

## Appendix

Do you think that this council is useful and does it help franchisees in Jonkoping or Sweden? Does it help for your ideas to be heard?

When it comes to buying equipment. Do you buy it through Subway or own suppliers?  
How exactly does the franchise concept work? Detailed with subway!

Are there any regional/national meetings (regularly), to discuss problems, new innovations etc?

## **Appendix 4**

### **Subway Ordering**

#### **1. Sub or Sallad**

Even though Subway are known for their sandwiches , all their sandwiches can also be made as a salad.

#### **2. Bread**

Subway in Sweden offers five different types of bread; Wheat, Sesame, Parmesan & Oregano, Wholegrain and Honey oat.

#### **3. Size**

All their sandwiches can be ordered in two different sizes, 15 centimeter or 30 centimeter (footlong).

#### **4. Extra**

The opportunity to order extra chicken, extra cheese, bacon etc. And also decide if the sandwich (or salad) should be warm or cold.

#### **5. Vegetables**

Decide what vegetables to put on the sandwich (or salad); lettuce, tomatoes, cucumbers, pickles, peppers, olives, red onions and/or jalapeños.

#### **6. Dressing**

Subway in Sweden offers 10 different dressings that can be put on the sandwich (or salad). Together with salt and/or pepper.

#### **7. Meal**

If cookies, apples or chips should be added to the sandwich (or salad) together with a drink.

(Subway.se, 27 mars 13.45)