Using the Plural Form in the Management of Restaurant Chains

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This article uses data from a field study of five large U.S. restaurant chains to model how chains use a plural form—simultaneous use of company and franchise units—to maintain uniformity and achieve systemwide adaptation to changing markets. From interview and observational data, I identify organizational structure, control systems, career paths, and strategy-making processes as four means through which the combination of company and franchise units helps chains achieve their objectives. The paper shows how the control and innovation processes provided by this plural form ameliorate some of the weaknesses and leverage some of the strengths of the company and franchise arrangements, enhancing the performance of the chain overall.•

Over one-third of all retail sales in the United States pass through chain organizations, and their share of economic activity in the United States continues to grow (Luxenberg, 1985; Mathewson and Winter, 1985; Dicke, 1992). Yet despite their prevalence, chains are a largely ignored phenomenon in the organizational literature: three respected books that survey this literature (Pfeffer, 1982; Perrow, 1986; Scott, 1987) scarcely mention chain organizations or franchising. This lack of attention may be due to the misperception that chains are not unlike other forms of organization.

From outward appearances, chains represent a simple organizational form: the cookie-cutter replication of a simple business concept; indeed, a McDonald's restaurant has the same look and feel around the world. But beneath this veneer of similarity resides two sharply differing organizational arrangements: company-owned units and franchised units. Most major restaurant chains, like those I examined in this study, use a mix of company-owned and franchised units to accomplish the two major challenges they face: maintaining uniformity across units and adapting the system to new threats and opportunities. Unfortunately, few studies illuminate either the complexity of chain organizations or their management challenges. The purpose of this article is to do both. I shall do so by using data from a field study of restaurant chains to construct a model of the management of chain organizations that explains how the simultaneous use of company and franchise arrangements—a plural form—helps a chain meet its twin objectives.

Company and franchise units embody contrasting economic and managerial characteristics (Oxenfeldt and Kelly, 1969; Rubin, 1978; Brickley and Dark, 1987; Hadfield, 1991; Williamson, 1991). In company units, the chain owns the physical facilities and operates them by hiring employees who are then managed through a traditional hierarchical structure. An authority relationship binds managers of company units to the chain. In franchised units, the chain contracts with a franchisee, who invests capital in the unit. The franchisee pays the chain an initial fee and an ongoing royalty (typically about 4 percent of revenue) and agrees to adhere to certain operating standards specified in the contract. In return, the franchisee may use the chain's trademark and receives the unit's profits, minus the royalty payment. A relational contract, with its implicit and explicit rights and obligations, joins

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franchisees to the chain (Hadfield, 1991). Most restaurant chains have a mixture of these two types of units and, therefore, have a plural form. Of the largest 100 restaurant chains (in terms of number of units) in 1988, 74 had plural forms (i.e., a mixture of company and franchise units), 22 had only company-owned units, and four had only franchised units; among the top 25 chains, 24 had plural forms, and one had only company-owned units (Technomic, 1989). The largest chains in the restaurant industry relied almost exclusively on the plural form.

It is through these two arrangements that leaders of chains meet two key management challenges: maintaining uniformity and systemwide adaptability. First, units in a chain share a common identity, operating under a trademark like McDonald's or Hilton Hotels. To preserve the trademark's integrity and value, a chain must preserve uniformity across units (Caves and Murphy, 1976). Chains comprising restaurants and hotels are not simply distribution outlets for products, however; rather, the local unit—the entire business format that embodies locally produced goods and services—is the product. Second, to ensure sustainability a chain must be able to adapt to new opportunities and threats over time. Managers must identify and implement systemwide adaptations that fit, to some degree, all the units in a chain. Since the late 1980s, this challenge has increased in importance, because the ability to grow by adding new units has diminished as markets have become saturated (Emerson, 1990). The magnitude of both of these challenges—uniformity and systemwide adaptability—expands in light of the hundreds and sometimes thousands of geographically dispersed units that often constitute a chain. As the chief executive officer of Pizza Hut told me, "We are in essence managing 6000 identical factories spread around the world. When an idea is proposed we have to evaluate whether it will work in all the different contexts."

My field work revealed that company and franchise arrangements offered different strengths and weaknesses when it came to maintaining uniformity and systemwide adaptability. The CEO of KFC explained: "The greatest problem with the company side of the business is excessive bureaucracy and rigidity. On the other hand, the biggest problem with franchisees is getting them to move in the same direction. At the same time, the company arrangement gives us control and the franchisees provide a spark of entrepreneurship." The company arrangement focuses on control: a multitude of structures and systems ensures adherence to the standards and preserves uniformity. The emphasis on control, however, does not create a context hospitable to innovation and adaptation. Conversely, franchisees are bound to the chain with a relational contract, with explicit and implicit rights and obligations, which provides the motivation and autonomy to generate and experiment with new ideas. The problem is controlling the behavior of franchisees: it can be difficult to maintain uniformity and obtain franchisees' agreement to adopt systemwide adaptations. While each arrangement has strengths, each is also beset by weaknesses: neither arrangement can address all the challenges a chain organization faces.

The underlying assumption of contingency theory is that the choice of organizational design depends on the challenges a firm faces (Lawrence and Lorsch, 1967), yet the difficulty of achieving both innovation and control in any single organizational structure has often been noted in the literature (Burns and Stalker, 1961; Duncan, 1976; Kanter, 1983; Leonard-Barton, 1992). In a line of research that echoes the CEO's quote above, Burns and Stalker (1961) argued that two sharply differing organizational designs, mechanistic and organic structures, are appropriate for routine and innovative tasks, respectively. Building on this insight, Wilson (1966) and Duncan (1976) speculated that organizations need both structures: organic for initiating innovations and mechanistic for implementing them. Duncan suggested that organizations solve this dilemma by becoming "ambidextrous," switching between the two forms depending on where they are in the innovation process. While there is little evidence that firms are able to do that (Daft, 1982), this is precisely the challenge facing chain organizations—obtaining both uniformity and systemwide adaptation. How do chains do it?

The small literature on chain organizations sheds little light on this issue, because it focuses almost exclusively on whether chains should own or franchise units, not on how they are managed once they are in place. Agency theorists argued that the varying incentives and monitoring costs associated with each arrangement account for their use: more easily monitored units are company-owned (i.e., are near a monitoring headquarters or in a densely populated area), while remote units are franchised because bureaucratic control would be costly and the incentives provide a form of self-control (Rubin, 1978; Brickley and Dark, 1987; Norton, 1988). A more recent variation on this argument is that franchisees enable faster growth by helping chains overcome the managerial limits to growth (Shane, 1996). In another line of research, capital constraint theorists have contended that chains will franchise early in their life cycle because of limited capital, a pattern that will be reversed in the direction of company ownership as the chain matures and the capital constraint becomes less binding (Oxenfeldt and Kelly, 1969; Caves and Murphy, 1976). In this model, chains avoid franchisees because of the "thorny problems and costs resulting from conflicts of interest with independent businessmen" (Oxenfeldt and Kelly, 1969: 72). While each theory has received modest support in the literature (Carney and Gedajlovic, 1991; Combs and Castrogiovanni, 1993), neither offers insight into how a chain is managed. Both conceive of chains as mere collections of units—the simple sum of discrete own-or-franchise decisions—not as complex organizations that are struggling to meet the challenges of uniformity and systemwide adaptation simultaneously with both company and franchise units.

The model of chain management presented here fills that void and reveals key processes that are overlooked in the existing literature. At the heart of the model is the concept of plurality (Bradach and Eccles, 1989). The plural form enables a set of processes that cause company and franchise arrangements to influence each other on important dimensions that shape performance. In this paper, I will discuss in detail four processes—modeling, ratcheting, socialization, and mutual learning—that help a chain achieve its management objectives of uniformity and systemwide adaptation while accommodating two disparate organizational forms. Chain organizations are more than the sum of their parts: by having both company and franchise arrangements together, a chain can leverage some of the strengths and overcome some of the weaknesses associated with each arrangement. An important feature of this study is that it highlights the limitations of simple models of institutional choice that ignore the role played by the simultaneous use of different structures in managing organizations.

METHODOLOGY AND RESEARCH DESIGN

The investigation reported here was an ethnographic field study of five plural-form chain restaurant organizations. Because little is known about plural-form chain organizations, I used case study evidence to build theory, as recommended by Eisenhardt (1989: 548). A study of five plural-form chains enabled me to examine critically the assumptions in the literature while embracing the possibility that an entirely new set of variables might influence the functioning of plural-form organizations.

This project was originally intended as an investigation into why chains owned or franchised their units. I was initially attracted to studying chains that both owned and franchised units because it would allow me to examine the causes and consequences of using different governance structures, controlling for industry, firm, and technology. In the first phase of the project, I visited three major restaurant chains (that asked not to be identified) to learn how they managed each arrangement. While respondents noted a variety of management structures and processes unique to each form, they also highlighted a multitude of ways company and franchise arrangements influenced each other. One CEO put it this way: "The chain gives you a system perspective, while the franchisees give you a local perspective. We are constantly working to balance both of these perspectives. By having both company and franchise units, we are able to do that." It became clear to me that viewing company and franchise arrangements as separate and distinct ignored some of the most important ways these arrangements contributed to organizational performance.

This initial observation, coupled with the fact that most major restaurant chains have plural forms, persuaded me to shift the research from the question of institutional choice to developing a descriptive model of how chains are organized and managed to achieve their objectives. After establishing the research objective, I identified a set of plural-form restaurant chains that would be the subject of the study. I sought chains that were large (over 500 units), well-established (in business over 10 years), and in sound financial condition (steady growth in revenue over the prior three years). My objective was to develop an understanding of the plural form, not at this early stage to discriminate between high and low performers or between large and small firms. I also sought chains in the same basic business, because different businesses were likely to face different challenges, adding an unnecessary level of complexity to this investigation. Through letters and introductions provided by the director of the International Franchise Association and industry experts, I was able to identify five firms that fit the criteria and that agreed to participate in the research: KFC (formerly known as Kentucky Fried Chicken), Pizza Hut, Hardee's, Jack in the Box, and Fishermen's Landing.[1] Table 1 presents descriptive information on these five chains.

All five chains participated in the quick-service restaurant segment of the business, known to the general public as "fast food." Although the products varied, all the chains sold meals and operated units that offered sit-down dining. The three largest chains in the sample were among the four largest chains in the United States in terms of revenue in 1988; the other two, Jack in the Box and Fishermen's Landing, were ranked in the top 50. All five had plural forms, with the percentage of company-owned and franchised units varying from 26 percent company units (KFC) to 65 percent company units (Jack in the Box). Except for Jack in the Box, the chains had had plural forms for over a decade and had maintained roughly the mix shown in Table 1 during that period. Jack in the Box had been entirely company-owned until 1980, when it began to franchise units.

I conducted field work in the five chains from late 1989 to early 1991. I interviewed people in a vertical slice of the organization, starting with the chief executive officer and moving down the organization to restaurant managers and franchisees. In each chain, I began with a visit to the corporate headquarters and interviewed the CEO and key corporate staff involved in the management of the chain. I then visited a division office for each chain (except for Fishermen's Landing, which had a centralized structure) and interviewed key divisional staff, personnel who worked in the field and were responsible for company and franchise units, and individual restaurant managers and franchisees. Table 2 indicates the number of people I interviewed from each chain. The company category encompasses all people on the payroll of the corporation, regardless of whether they were involved in managing corporate, company-owned, or franchise activities. The franchise category includes only individual franchisees.

The interviews were unstructured and lasted from one to five hours. The interview typically began with an invitation to describe the key ways the chain managed company and franchise units. The interview generally covered three broad topics: (1) the formal structures, systems, and processes used to manage units, (2) the key challenges of managing company and franchise units, and (3) the rationale for the chain's particular mix of company and franchise units. The emphasis and level of detail on these topics varied depending on who was being interviewed, but in every case I encouraged respondents to provide concrete examples of their points. With many respondents, I conducted follow-up interviews and phone calls to clarify issues. For each interview I took handwritten notes, which I reviewed and edited following the interview.

The interview data were enriched with data from several other sources. I was sometimes able to observe meetings

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Fishermen's Landing is a pseudonym used here to protect the chain's identity. Certain identifying characteristics of the chain have been changed, such as the size of the chain. No characteristics have been changed that are relevant to the central argument here.

Table 1

Descriptive Statistics on Chains in the Sample (1989)

Company	Product description	Total units	Company units	Franchise units	Sales ($ million)
KFC	Chicken, sandwiches	4,899	1,262 (26%)	3,637 (74%)	2,900
Pizza Hut	Pizza, pasta, sandwiches	5,707	2,770 (48%)	2,937 (52%)	2,800
Hardee's	Burgers, specialty meals, breakfast	3,076	1,018 (33%)	2,058 (67%)	2,725
Jack in the Box	Burgers, specialty meals, breakfast	957	637 (65%)	320 (35%)	775
Fishermen's Landing	Fish and chips	800	440 (55%)	360 (45%)	310

Table 2

Distribution of People Interviewed from Each Chain

Company	Company personnel	Franchisees
KFC	19	5
Pizza Hut	22	5
Hardee's	29	3
Jack in the Box	13	2
Fishermen's Landing	7	6
Total	90	21

involving both company people and franchisees. For example, I attended an all-day regional marketing meeting for one chain at which franchisees were presented with corporate advertising proposals that they discussed and voted on. I also spent five days on field visits, joining company managers on visits to company and franchise units. Insights gleaned from these behavioral observations often stimulated new lines of inquiry for future interviews. To avoid hearing only the corporate point of view, I interviewed elected representatives of the franchise group in the four chains in which such groups existed. In addition, data and documents from public sources and from the chains illuminated issues raised in the interviews. These multiple approaches helped to ensure the reliability and validity of the findings (Jick, 1979).

The first phase of analyzing the data involved building case studies of each chain, which identified the key structures, systems, and processes involved in the management of a chain, as well as gaps in the data that needed to be filled in subsequent visits to the field. In these cases, I sought to understand how the organization actually worked rather than to describe the formal design. This was facilitated by interviewing multiple people and by spending time with people on the job. For example, company executives and franchisees described the strategy-making process in ways that oftentimes only partially overlapped; information from both sides was needed to develop a complete picture of the process. At the conclusion of most interviews and in final visits to the field sites, I shared my preliminary findings with managers and franchisees. Discussing my findings with my respondents added to my understanding of the management of chains and led to further refinements of the model.

The first drafts of these cases treated company and franchise arrangements separately, a narrative strategy that mapped neatly onto the structure of chain organizations. It became clear, however, that another analytic category was needed to explain the management of each arrangement: the role played by the other one. For example, when talking about managing the performance of units, practitioners commonly referred to the relative performance of company and franchise units; one arrangement was used to set the performance targets of the other. It was from this analysis that an understanding of the underlying processes of the plural form began to emerge. As I began to compare how the five chains achieved their objectives of uniformity and systemwide adaptation, the robustness of the processes of the plural form became clear. I saw remarkably similar patterns across the chains. Throughout the research, practitioners frequently remarked that a mixture of company and franchise units made the chain stronger than an exclusive reliance on one or the other, yet people had difficulty specifying the actual processes that produced the advantage. The model that emerged from the data confirmed their espoused theory.

USING THE PLURAL FORM

Restaurant chains face two key challenges: maintaining uniformity and accomplishing systemwide adaptations. Rich Backman, an executive at KFC, explained: "We are running thousands of identical factories. They need to be the same because customers need to get what they expect." At the same time, an increase in industry competition has also made systemwide adaptation a critical challenge (Emerson, 1990). As George Kelsey, a vice president at Hardee's, noted, "The capacity to act will determine the winners and losers in the industry." These two challenges interact with each other: as new opportunities and threats arise, the pressures for changing the system grow; and as those pressures grow and innovative ideas emerge, the issue then becomes how to get the system to adopt a new uniform standard. While uniformity and systemwide adaptation relate specifically to chain organizations, these challenges reflect the general pressures that face all organizations: the need to exercise control and to promote innovation (Steers, 1977).

My informants identified four means by which their chains achieved their twin objectives: structures, career paths, control systems, and strategy-making processes. Table 3 summarizes the model of the plural form that I derived from these four elements. The columns labeled "company" and "franchise" in Table 3 offer a stylized description of each arrangement based on my field work. The four key processes of the plural form (identified in the center column) emerge out of these basic building blocks of organization. The direction of the arrows indicates the dominant direction of influence between the two forms. The depiction of each arrangement, as well as the processes of the plural form, add to the sparse literature that exists on how chains actually work (Stern, 1971; Caves and Murphy, 1976; Rubin, 1978; Brickley and Dark, 1987; Norton, 1988).

The plural form enhances uniformity through the first three processes noted in Table 3. First, franchisees, many of whom own multiple units and operate mini-hierarchies of their own, reproduce the company structure. This modeling process increases the use of common practices across com-

Table 3

A Model of the Plural Form

Key attribute	Company	Plural-form processes	Franchise
Structure	Hierarchy	Modeling process →	Federation of mini-hierarchies
Control system	Budget, management information systems, and authority	Ratcheting process ↔	Incentives, contracts, and persuasion
Career paths	Ascend hierarchy	Socialization process →	Business builders and small business owners
Strategy making	Centralized expertise	Mutual learning process ↔	Local experience

pany and franchise units. Second, in the ratcheting process, which emerges out of the control systems, both sides influence each other, raising the level of uniformity and the performance of the chain overall. While the control systems varied in company and franchise units, a few features were used in both arrangements, which set the stage for competition between the two types of units, encouraging improved performance. An important aspect of the control system was the use of data generated in company units to persuade franchisees to change their behavior. Third, career paths often led company people into the franchise arrangement as franchisees, as corporate franchise consultants, and as employees of franchisees. The socialization process that occurs in the company units before people move into the franchise arrangement helps to create a shared understanding of what is required to operate a unit, which increases uniformity across the chain. In the first and third processes, the presence of company units makes it easier for the chain to manage franchisees; in the second process, each form influences the other.

The plural form also played a critical role in enabling a chain to generate and implement systemwide adaptations. The strategy-making process utilized the complementary strengths of the company's formal expertise and the franchisee's intimate knowledge of local conditions. By leveraging the strengths of each, this process produced more varied ideas and applied more thorough selection criteria to them than could be produced by either arrangement alone. By providing performance data and demonstrating new ideas, company units also helped the chain persuade franchisees to adopt proposed systemwide adaptations. I label this the mutual learning process. The next four sections of the paper elaborate on these core processes of the plural form.

Organizational Structure: The Modeling Process

Many scholars assume that company arrangements are managed through a hierarchy and that franchisees are entrepreneurs operating outside an organizational structure, governed solely by contract (Brickley and Dark, 1987), but this simple depiction of a chain's structure is incomplete and misleading. The franchisees in this study often owned multiple units, and those units were organized in hierarchies. Franchisees typically modeled the structure and practices of these hierarchies after the hierarchy used by the chain to manage company units. This modeling process helped chains overcome some of the control problems associated with managing franchisees and maintaining uniformity. Also, in contrast to the depiction in the literature, chains used a hierarchical structure of company personnel to monitor and manage franchisees. This focus on the organizational mechanisms used to govern contractual relationships adds to the literature, which has tended to emphasize the formal provisions of the contract (Brickley and Dark, 1987; Rubin, 1978; Klein, 1980) and "relational norms," which give definition to the contract (Macauley, 1963; Macneil, 1978; Hadfield, 1991), as the primary ways firms manage such relationships (for an exception, see Stinchcombe, 1990).

KFC's northeast division was representative of the structure used by the five chains. Typical of most organizations, it had functional departments, such as marketing, human resources, and finance, but its "production" department was broken into two parts, one for managing company units and one for franchise operations. Only one chain varied from this structure, and it assigned responsibility for managing franchisees to senior executives who were in charge of company-owned units. Whether specialized or senior personnel were used, the structure suggests that the two arrangements required different skills to manage. The job descriptions for the chain's field personnel assigned to the franchise and company operations departments reflected the contrasting management strategies used in each arrangement: area managers "managed" company employees and company units, while franchise consultants "worked with" franchisees, many of whom owned multiple units. The titles "area manager" versus "franchise consultant" themselves point to the different activities undertaken by the chains in each arrangement: managing versus consulting.

Chains organized the "field operations" differently in the company and franchise departments. Table 4 reports the spans of control for corporate field personnel in the four chains that used this type of structure. The franchise consultant's span of control (the first two columns), measured in terms of either individual franchisees or franchise units, was wider than the span in the company arrangement. In part, an explanation for the spans of control can be found in other elements of each arrangement. For example, the employment relationship in the company arrangement, built on using salaries for rewards and authority for influence, necessitated the heavy involvement of superiors to initiate and monitor action. In contrast, franchisees exercised more local autonomy, guided by the franchise contract and incentives, which reduced the need for the chain's involvement and helps to explain the wider spans of control in the franchise arrangement.

The different spans of control also reflected the different tasks associated with being an area manager or a franchise consultant. Area managers emphasized the maintenance of standards and the achievement of budget targets. They reviewed daily the computer reports that highlighted variances from the budget the previous day. On a weekly or monthly basis, they conducted "field audits" on company units to ensure the maintenance of standards. The job of the franchise consultant was quite different. Franchise consultants

Table 4

Span of Control of Chain Organization's Field Staff

	Franchise Consultant		Company Area Manager
Company	No. of franchisees	No. of franchise units	No. of company units
KFC	15	90	6
Pizza Hut	9	175	7
Hardee's	6	35	6
Jack in the Box	8	45	8

spent most of their time trying to persuade franchisees to adopt programs offered by the chain (e.g., a new product or new interior decor package) or to remedy violations of the chain's standards. Franchise consultants also conducted field audits on franchise units, although much less frequently than in company units—typically once a year. These audits were consequential for franchisees because, in four chains, a franchisee's audit scores determined whether he or she was permitted to add new units.

But the chain's own organization represented only part of its structure. Another important element was provided by franchisees who owned multiple units. The chain's relatively wide spans of control over franchisees (shown in Table 4) are attributable in part to the presence of franchisee-owned and operated mini-hierarchies, which exercised control over franchise units and enabled the chain to devote fewer resources to controlling these units. Table 5 displays the size characteristics of the franchisees in the five chains. The average number of units owned by a franchisee ranged from 2.7 to 22.4. To appreciate fully the significance of multiunit franchisees, one must note the size of the largest franchisees—for example, one franchisee owned 432 units at Hardee's—and recognize the concentration of units among a few franchisees—for example, 17 people owned half of KFC's 3,592 franchise units. The majority of franchise units operated as parts of mini-hierarchies. The difference between company and franchise units is not local owner-operators versus bureaucratic managers, as it is typically framed in the literature, but a federation of semi-autonomous small hierarchies (a franchise arrangement) contrasted with a large monolithic hierarchy (a company arrangement).

The chain's challenge of maintaining uniformity was made easier by the presence of multiunit franchisees because they replicated the management policies and practices of the company arrangement in their own organizations, from the spans of control of field personnel (i.e., 1 to 6 ratio of units to area managers) to the performance evaluation and compensation systems. As one franchisee said, "It would be hard for me to point to many things where my people do things differently than their people." Nearly every chain executive and franchisee agreed with the assessment of the Fishermen's Landing executive vice president who noted, "Big franchisees look just like us." The similarity was vividly

Table 5

Descriptive Data on Franchise Arrangements

Company	Number of franchise units	Number of franchisees	Average size of a franchise (units)	Size of largest franchisee (units)	Percent of franchisees that own 50% of franchise units	Number of franchisees who own 50% of franchise units	Number of franchisees who own one unit
KFC	3,592	778	4.6	270	11%	17	350
Pizza Hut	2,984	149	20.0	339	4%	29	18
Hardee's	2,058	250	8.2	432	3%	8	88
Jack in the Box	320	120	2.7	30	16%	19	51
Fishermen's Landing	360	16	22.4	100	19%	3	0

illustrated in an interview with the CEO of one chain, who vigorously disagreed with my observation that spans of control were wider in the franchise agreement. When I showed him the data in Table 4 to support my point, he said it was misleading because "The franchisee's area managers are watching each unit with a 1 to 6 ratio." The CEO had incorporated the franchisee's structure into his organizational calculus when considering the spans of control. This finding that franchise units operate within both the franchisee's (1 to 6 span of control) and the chain's (1 to 65 span of control) field structure challenges the conventional conception that little management is required to govern these contractual relationships.

One franchisee explained why he replicated the company structure: "The company has a lot of experience managing multiple units so we can learn from that." As another franchisee put it, "It works there, so why change it?" This mimetic process offered franchisees a proven solution to managing multiple units (a very different management problem than managing one unit) and enabled them to avoid the costs of experimenting with new organizational designs (Stinchcombe, 1965; Rubin, 1978). Consistent with DiMaggio and Powell's (1983) argument for why firms mimic each other—to signal to key stakeholders that they are operating in legitimate, widely accepted ways—one franchisee explained why he copied the company model: "I don't want to spend my time justifying to [the chain] how I manage my place. It's easier to follow their lead."

The overall structure of the chain is shaped by the modeling process, in which franchise mini-hierarchies adopt the policies and practices of company units, which helps to maintain uniformity across the chain. Chains use the parts of the organization over which they have control (company units) to model the behavior they seek in other parts of the organization (franchise units). A critical ingredient of this structure and process is multiunit franchisees. They transform the monumental task of managing hundreds and even thousands of relationships (if each unit were owned by a different person) into a more tractable management problem for the chain. For example, if KFC can convince the 17 largest franchisees to adopt a new practice, then it has affected almost 1,800 franchise units (see Table 5). Multiunit franchisees also make the chain's exercise of control less problematic, because franchisees internalize the chain's standards and embed them in the operating practices and procedures of the franchisees' mini-hierarchy. Since the exercise of control is a complex undertaking with franchisees who view themselves as independent businesspeople, this aspect of the modeling process provides a major benefit. The sections that follow illuminate how this structure provides a context out of which managers exercise control and produce innovations.

Control Systems: The Ratcheting Process

The typical view in the literature is that chains use a cybernetic model of control in both arrangements: performance is monitored and deviations are brought into line through authority in the company arrangement and through incentives and the threat of contract termination in the franchise arrangement (Rubin, 1978; Klein, 1980). In practice, chains did control each one differently, although in ways not captured by this depiction. I found that company arrangements were managed through bureaucratic mechanisms of control, and franchise arrangements through a mixture of market and social mechanisms (Ouchi, 1980; Bradach and Eccles, 1989). An important aspect of control not recognized in the literature was provided by the simultaneous use of company and franchise units. First, the plural form helped managers solve the vexing problem of setting relevant performance benchmarks for company and franchise units. In the plural form, the performance of one arrangement was often used to set the standard for the other. Second, chains typically resorted to persuasion rather than threats of contract termination to change franchisees' behavior, and the persuasion process was greatly enhanced by the presence of company units, which provided performance data that the chain could use to support its views.

Multiple systems for monitoring performance existed for company units. First, in four chains, automated management information systems (MIS) linked all the company units to headquarters (Fishermen's Landing did not have an automated system). Each day chains calculated and analyzed food and labor costs as a percentage of sales, by restaurant, region, or division. One chain called the management technique accompanying these data "management by red pen": every morning senior managers circled in red pen the numbers that varied from the plan and asked subordinates for explanations and action plans. Second, hierarchical superiors conducted regular "field audits" on the restaurants in their domain. These audits were called "Q.S.C. audits" (the order of the letters varied by chain) because they focused on quality, service, and cleanliness. The field audit form for Hardee's, for example, included 295 items pertaining to the operation of the restaurant and took from two to four hours to complete; the audit was conducted at least once a month. Third, several chains used "mystery shoppers." An evaluator made an unannounced, anonymous visit to a restaurant and rated the dining experience from the customer's perspective.

The performance measures used in the company arrangement largely focused on behavior. An executive at KFC explained: "This isn't brain surgery, but you have to get the details right. Details are like a cancer: They start to grow out of control if you don't constantly monitor them." Managers in the company hierarchy were rewarded mainly for maintaining operating standards, not profit, and this focus was fully intended. As one executive put it: "We would have chaos if people were given too much of an incentive to maximize financial results. They would screw up the business concept in an effort to get the bonus." Consistent with this philosophy, managers' compensation in all five chains was a fixed salary and small bonus, with promotion as the primary reward for running units effectively.

The franchise side of the business used some of the same performance measures, but chains relied primarily on the self-control provided by the incentives and provisions in the franchise contract and various forms of social control to manage franchisees. The chief operating officer at Jack in the Box explained: "The franchisee's concern about the business is far greater than the company restaurant manager's. The company manager is in a bureaucracy; they believe in and obey procedures. Therefore, you see a lot more rules in the company arrangement. The franchisee focuses on what is important on their own."

Still, chains installed a variety of mechanisms to maintain control over franchisees to protect the integrity of the trademark, because they sometimes deviated locally in ways that damaged the brand (Rubin, 1978). Franchise consultants conducted field audits of a franchisee's units, usually once a year, much less frequently than on the company side. Mystery shopping was done on franchisees in just three chains, and in two of them it was permitted only with the approval of the franchisee. In no chain were franchisees integrated into the automated MIS systems, and in three chains the only financial information the chain received was a revenue number each month from which the royalty was calculated.

The way these data influenced franchisees differed sharply from their effects on company units, where, as one executive said, "We essentially have a military organization . . . we tell them and they do it." In contrast, formal authority was not granted to the chain in the franchise arrangement. An often repeated industry adage was "we sell franchisees and tell company managers." Two long-time franchise consultants, representing different chains, explained the challenge:

> We have no authority, so we must be able to convince the entrepreneur, many of whom are extremely successful businesspeople, to do things. Communication, negotiation, and listening skills are the key to the relationship.

> On the company side, we can put restrictions on people. In contrast, with franchisees we suggest, nurture, and prod to achieve our goals. Relationships are crucial and when they deteriorate it becomes extremely frustrating to try to get the company's goals across.

The formal franchise contract specified many standards and sanctions for not following them, giving an illusion of fiat-by-contract. But control was actually exercised on a day-to-day basis through persuasion (see Macauley, 1963; Macneil, 1978; Hadfield, 1991). For example, certain provisions appeared to enable the chain to terminate the franchise contract for violations of standards. Yet in practice it was extremely difficult to do this. As one executive commented, "You need a dead rat in the kitchen, and preferably three or four, if you want a chance of winning [a court case against a franchisee]." Except in the most extreme cases of malfeasance, the chain relied on persuasion to control the behavior of franchisees (see also Hadfield, 1991).[2]

Consequently, chains invested heavily in developing relationships with franchisees that supported the smooth operation of the chain. Said the president of one chain, "The company-franchise relationship is like a marriage. You agree to enter the relationship, there are some rules, but there are a whole lot of things you have to work out as you go." The relationship-building process began with the chain carefully selecting franchisees after a trial period of work at an existing unit, ranging from a few days to a few weeks. This experience, along with multiple interviews, provided data about the person's fit with the organization. The director of franchising of another chain explained the significance of the process: "It is a big decision to join a chain. You're hooking up for life—or at least for a long time. You really need to make sure you're compatible so you can work together."

Once franchisees joined up, chains maintained constant contact with them. All five chains had either annual or biannual meetings, where franchisees met with top chain executives to discuss business issues. In the three largest chains, quarterly meetings were also held at the regional level. In chains that advertised on television, there were also quarterly advertising meetings of franchisee representatives, elected by their peers. The four chains with the largest number of franchisees also had bodies of franchisees elected by their peers who met monthly or quarterly with staff of the chain. Committees of franchisees also dealt with everything from functional strategies (e.g., marketing) to specific challenges facing the organization (e.g., changing the size of a large pizza). All of this was in addition to the regular contact between franchise consultants and franchisees. These venues allowed the chain to develop relationships with franchisees, which were crucial to influencing their behavior.

Despite the differing control strategies, company and franchise units shared several performance measures, setting in motion a "ratcheting effect" that enhanced the chain's ability to manage the performance of both arrangements. The ratcheting effect worked as follows: a chain's ability to impose standards on franchisees legally or informally was based in part on the company units' performance level, which consequently led the chain to apply pressure on its company units; conversely, the higher the level of performance in company units, the higher the standards the chain could set for franchisees. The high performance of each side set a benchmark for the other one to pursue; and as one overtook the other on a performance dimension, a new benchmark was set. In virtually every interview, respondents referred to the relative performance of company and franchise units.

Pizza Hut illustrated the ratcheting effect at work. Its franchisees had historically outperformed company units in sales

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Along with persuasion, the chain had one additional source of control at its disposal: halting the unit growth of the franchisee. A franchise consultant put the issue succinctly: "The key way we manage franchisees that don't follow the standards is that we don't let them grow." While the chain was constrained in its exercise of formal contractual control, it had complete discretion over whether to grant a new unit to a franchisee, adding reward power to its repertoire of influence strategies (French and Raven, 1968).

and field audit scores, but during my research period the company units began to outperform franchisees. This shift was mentioned in the first five minutes of my initial interview with the CEO. He used these scores to pressure franchisees to improve their performance: "They need to get on board and improve their operations. We've shown them the kind of opportunity there is in this business." A Pizza Hut franchisee echoed the CEO's perspective: "For years the company was terrible compared to us. Now when they tell us to do something we listen a bit more."

In other cases, the ratcheting process worked in the other direction: the relatively strong performance of franchisees put pressure on company units. The chairman of KFC noted the significance of this process to the management of the chain: "To be the leader of the chain [and its franchisees], you have to operate excellent units. It is a top priority of ours." Performance differences between the two arrangements had legal implications that reinforced the performance pressure on company units. One chain executive remarked, "Whenever we confront a franchisee on his performance he lists all the company units that are worse. And often he is right." Such unfavorable comparisons limited a chain's legal options because it was difficult to take a franchisee to court for poor operating performance when even weaker company units existed in the system. This dynamic adds to Walker and Weber's (1984) argument that the information generated by a company's experience in manufacturing a part enhances its capacity to contract with and monitor an outside vendor. The data from this research show that the pressure on performance runs the other way, too: from the outside vendor to the company's internal activities.

Two factors helped make the ratcheting effect important in controlling the behavior of company and franchise personnel. First, people often identified strongly with their "side," i.e., with the "company" or the "franchise community." This sharp distinction, inherent in the plural form, was fertile ground for intergroup dynamics, including intense competition between groups (see Sherif and Sherif, 1953; Alderfer, 1983). The intergroup competition was often organized around common measures of performance.

Second, the similarity of units in a chain enabled performance comparisons that both company people and franchisees perceived to be legitimate. While people often cited differences in markets and customers as explanations for performance differences, no one disagreed that the comparisons were relevant, since in both arrangements people were doing essentially the same tasks. At the same time, the different ownership arrangements and management practices associated with each arrangement—which tended to emphasize rules in company units and the achievement of revenue and profit in franchise units—provided the chain with different sources of ideas from which to identify opportunities to improve performance. One executive explained how he learned from cases in which franchisees deviated from the standards: "Rather than focus on whether it is approved or disapproved, I ask the franchisees what it is doing for their business. Usually the numbers don't justify the effort, and they agree to take it out. They are just experimenting. Of course, if it does make sense then we want to learn about it." Of course, too much variation might negatively affect the trademark, so chains were vigilant to identify and understand deviations and work on correcting them when necessary.

Along with the ratcheting effect, there was a second important way the plural form influenced a chain's ability to exercise control, in this instance, over franchisees. Chains relied heavily on persuasion (not authority) to influence franchisees, and information generated in company units aided chain operators in that process. A franchise consultant for one chain described his job: "I help them think about their business, and I can provide information from the company frame of reference about how we operate." In every meeting I observed between franchise consultants and franchisees, consultants used detailed profit and loss statements and operating data from comparable company units to persuade franchisees to change their behavior in some way. The significance of the role company units played in controlling franchisee behavior was vividly illustrated by KFC, which was pursuing a strategy of locating company units in every major market in the United States. A regional vice president explained: "We need to be able to show them the upside of running their restaurants correctly. . . ." All of these dynamics depended on the chain transferring information from company units to franchisees. The chain was able to exercise informational influence (Raven and Kruglanski, 1970), in part due to its sophisticated MIS in company units, which generated detailed data often not easily available to franchisees. Of course, this persuasion strategy was only as effective as franchisees perceived the company units to be, setting in motion the ratcheting effect discussed above.

Career Paths: The Socialization Process

A more subtle, but no less important role played by company units in persuading franchisees was provided by career paths that cut across the two arrangements. The conventional view of careers in chains is that company people ascend the hierarchy, and franchisees remain independent small-businesspeople. While most company personnel did flow through the company hierarchy, with the relatively narrow spans of control and the scalar structure providing a natural career ladder, the typical career path of a franchisee differed. A franchisee who excelled at operating his or her existing units, added new ones and built a mini-hierarchy. Franchisees devoted a large portion of almost every interview to explaining their plans for adding units. Along with these two distinct and separate career paths were three other paths that cut across the two arrangements and deeply affected the chain's functioning: (1) company people becoming franchisees, (2) company managers becoming franchise consultants, and (3) company managers becoming managers in a franchisee's organization. Each of these career paths influenced the chain's ability to exercise control over the franchise arrangement.

Company person to franchisee. A key constraint facing chains as they sought to grow was finding interested and qualified franchisees. The plural form offered a means of escaping this constraint by utilizing company people as franchisees. The chief operating officer of one chain explained the benefits: "The company people know the system. They are proven operators and they appreciate the importance of maintaining standards and running the business right. There is much less risk in terms of getting a bad apple with company people because we know them well." Company managers understood what was required to operate a restaurant in the chain; moreover, their experience as company managers inculcated in them an appreciation of the importance of following the chain's standards, thereby reducing the likelihood they would become a management "problem" as a franchisee. This process resembles that in Ouchi's (1980) clan form of organization, whereby socialization into an organization reduces the need for hierarchical or market mechanisms of control. Here, however, the clan form extends across market boundaries. In addition, this path provided both the company and the prospective franchisee with information about each other. Executives from all five chains remarked on the advantage of selecting company people who they were confident they would be able to "work with." The long preexisting relationship built a foundation of trust between the former company person turned franchisee and the organization, which supported the efficient conduct of the relationship (Arrow, 1974).[3]

All five chains used this career path. At Fishermen's Landing, eight of nine of the most recent new franchisees were former company employees. Jack in the Box executives estimated that 40 percent of the 90 franchisees joining the chain between 1987 and 1989 had been with the company before. Hardee's developed its "American Dream Program" in 1990 to enable selected company employees to become franchisees, and eighteen of the most recent new franchisees were from company ranks. KFC relied less on this pattern, although its minority franchising program recruited some company employees to become franchisees. KFC's history may help explain the absence of this career path: it had hundreds of franchisees before it started company units. Pizza Hut had sold almost no franchises since 1977, but before then, executives reported, many of the old franchisees were former company people, and two of the five franchisees I interviewed fit that category.

The company arrangement obviously incurred a cost when good people were lost to the franchise arrangement, but the different mechanisms of control still made this a sensible strategy. As one executive put it, "The management of company units is more systems-oriented and the management of franchisees more people-oriented." Because chains relied heavily on personal relationships to manage franchisees, it was particularly useful if the person had a tie with the organization. This was less crucial on the company side.

Company-unit manager to franchise consultants. The career path from company manager to franchise consultant led to the use of relatively experienced company-unit personnel as franchise consultants, whose ability to work effectively with franchisees was thereby enhanced. People in both of these positions were employees of the chain, but their roles shifted from managing company units to working with franchisees. One division vice president explained the impor-

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The use of company people was also driven by a practical consideration: the paucity of qualified prospective franchisees who had both capital and experience operating a restaurant. The CEO of one chain highlighted a conundrum his chain faced: "People with enough money to become a franchisee usually don't want to run a restaurant." While company people rarely had the required capital, the chain or a passive investing partner often assisted them in buying the franchise.

tance of this career path, "The entire franchise-consultant-franchisee relationship is based on credibility. The credibility of that person depends on their operations experience and their ability to solve problems." The CEO of another chain elaborated: "The franchise consultant must have the maturity to deal with franchisees without having to resort to authority. The person needs to know the business and earn the respect of the franchisee." One franchise consultant at KFC recalled, "When you first meet franchisees they always want to know if they have more time [in the chain] than you. Once I say I've been doing chicken for 18 years, they are willing to work together."

Both chains and franchisees deemed company-specific experience important, and chains rarely hired franchise consultants from outside. Noted one franchisee, "I'll talk to them [franchise consultants] if I think that they can help me." Managers of plural-form chains firmly believed that to be credible and persuade franchisees to change their behavior, franchise consultants had to have operating experience with the chain: "Franchise consultants need to really understand our business and that comes from running one of our restaurants," said one chain executive.

The majority of franchise consultants expected to return to the company side of the organization later in their careers. Executives believed that this path from the franchise side back to the company would enhance the managerial effectiveness of these people. A division manager remarked that "the [franchise consultant] position teaches people a distinct set of skills, in a particular setting, that helps them be better managers when they return to the company side of the organization." Another company executive noted, however: "Sometimes the transition back is difficult. As a franchise consultant, a person has access to corporate information and plans and a degree of freedom that does not exist on the company side. At the same time, they've gained a broader set of skills which allows them to be more effective when they return to the company side." Although the transition is difficult, this executive noted that the experience as a franchise consultant serves as an important developmental experience for some company executives.

Company's manager to franchisee's manager. The third career path that affected the performance of the franchise arrangement was the movement of people from the company hierarchy to a franchisee's mini-hierarchy. Franchise consultants were particularly susceptible to taking this path, since, as boundary-spanners, they often developed close relationships with franchisees. During my study, nearly half the franchise consultants in one division of one company joined franchise organizations. This path was not as common in other chains, but each had examples of it occurring. One director of franchising pointed to the advantage of this path: "We hate to lose good people but at least now we'll have some real operating expertise in those franchise organizations." The director of franchising in another chain remarked that he often tried to dissuade people from making this switch (in fact, it was contractually prohibited for franchisees to "pirate" company people), but he conceded, "It's better that we keep the expertise within the chain than lose it altogether."

These three career paths played a major role in helping a chain accomplish its objectives of maintaining standards (by diffusing into the franchise arrangement people who knew company policies and practices) and controlling the behavior of franchisees (by strengthening the credibility of the franchise consultants). These findings are consistent with Larson's (1992) argument that the social dimensions of interorganizational relationships play a crucial role in controlling and coordinating behavior in transactions. She identified personal reputations and prior relations as critical preconditions for an effective relationship. The use of company people as franchisees satisfies these two conditions, with the additional advantage that reputations are built on first-hand experience. The other two career paths also supported the exercise of social control by providing actors with the credibility and prior relationships on which effective relationships could be built.

Strategy Making: The Mutual Learning Process

At the heart of the systemwide adaptation process is strategy making, determining how to deploy the firm's resources. This is complicated in chains, because a multitude of units may need to be changed in unison, some of which—the franchise units—the firm does not control with authority. The literature has ignored this process entirely, making the simplifying assumption that the chain decides the strategy of the firm (Stern, 1971; Rubin, 1978), and thus has missed the dynamic nature of strategy making—the generation of a variety of ideas, their selection, and retention (Burgelman, 1991)—and the unique way company and franchise arrangements contribute to each stage of that activity. The plural form enables a mutual learning process that leverages the distinctive strengths of each arrangement: the company arrangement's expertise in functional areas, its MIS, and its ability to control the behavior of managers; and the franchise arrangement's people, who have long experience in local markets and are willing and able to advocate their ideas with top executives at a chain. The plural form produces a wider range of strategic options and a more rigorous evaluation of those options than either arrangement alone could provide. The retention stage also benefited from the plural form, echoing the processes used to maintain uniformity, with data from company units used to persuade franchisees to adopt new strategies.

A sketch of how strategies are made will help explain how the simultaneous operation of company and franchise units influences the process. Strategy-making in the company arrangement was highly centralized and specialized. "[The CEO] has the final say as to whether we introduce a new product," said the vice president of marketing in one company. In all five chains, the CEO, in consultation with other top executives, developed the basic direction of the company and made decisions related to strategy. Typically, a department like marketing developed a new idea, which was subsequently tested in individual units and then local markets. The company relied on the functional expertise and

MIS data to produce and test new ideas. Company restaurant managers rarely generated new ideas, because the core of their job entailed maintaining standards. Once a decision on a new idea was made, the chain exercised authority and implemented it.

The process was slightly, but importantly, different on the franchise side of a chain. The president of Jack in the Box commented, "I don't want to patronize the franchisees but it is our job to do strategic planning. You need a strong center guiding the company or else things will get out of control." Most franchisees agreed, although they added that franchisees should play a role in the process. One franchisee offered a perspective I heard repeatedly in the interviews: "The franchisees don't want to be the head of marketing. Franchisees want to be led, but in a fashion where they are listened to and have input. As long as the company has the data to support something, then the franchisees will go along. But we should be serious players in the process." In all five chains, franchisees were indeed "serious players," serving both as initiators of shifts in strategic direction and as tough critics of proposed shifts. Franchisees were motivated to play this role because their success depended on the profits produced by their units. At the same time, chains incorporated franchisees into the process because, in practice, the franchise contract rarely gave the chain the right to dictate strategic changes to franchisees. As one franchise consultant put it, "If they [franchisees] are not part of the process, you get only a half-hearted commitment or no commitment." Persuasion was central to the adoption of new ideas in the franchise arrangement.

The plural form provided the chain with new ideas from two sources: the expertise of the corporate staff and franchisees trying to meet the demands of their local markets. In the area of product development, for example, chains often had a "New Product Group" composed of corporate staff personnel who met regularly, brainstormed new ideas, tested them, and made recommendations. In contrast, franchisees generated new ideas by proposing products for their local markets that sometimes were later studied and adopted throughout the system. Thus, Pizza Hut's "2 Pizzas for 1 Price," which became the cornerstone of its growth strategy in 1991, was developed by a Florida franchisee responding to a local competitor. In other cases, franchisees improved proposals by helping to work out important details. In one meeting I observed, franchisees altered a corporate proposal for a new product introduction by noting that they did not have the freezer capacity to store the pre-prepared product. A franchisee's rewards were directly related to how well his or her units performed in the local marketplace; accordingly, franchisees constantly searched for ways to improve their business.

Each arrangement also contributed in unique ways to the process of selecting new ideas. Chains conducted formal market tests of new products in company units. "On a daily basis," said one marketing research director, "we are able to see how the product is doing, what effect it has on sales, and how it's changing the [product] mix." Such data were extremely difficult to obtain from franchisees for three reasons: first, because franchisees were not connected to the MIS; second, because the chain operator did not have the authority to make the franchisee adopt strict testing procedures in stores and televise supporting advertising; and third, because if the test failed, it was difficult to compensate the franchisee for his or her loss. An executive summarized the implications of these impediments: "It's easier to simply avoid it and work with company units."

Franchisees also contributed to the strategy selection process uniquely by challenging the assumptions and business logic of decisions proposed by the chain. One CEO offered a frequently repeated perspective: "In most businesses, there is a risk to complaining. People tell their bosses what they think the boss wants to hear. The franchisee, though, does not work for you and has no hesitation to call you directly and let you know what he thinks. The franchisees make us better." Franchisees had a strong incentive to share their perspectives. As one franchisee put it, "If things get screwed up, they [chain personnel] may have to find another job. I may end up losing my business, home, and car." An equally important reason for the impact of the franchisees' input, though, was the fact that they were an efficient conduit of information from the local level to key decision makers. The nature of control in franchise units promoted extensive personal contact between franchisees and top executives and brought local experience and data to bear on the strategy-making process. I became convinced of this pattern when two different company managers told me that they often called franchisees and urged them to speak against an idea proposed by the chain. These managers viewed having a voice through franchisees as a more effective way to communicate with corporate superiors than using their own hierarchy.

These data raise an important theoretical point. Williamson (1985) argued strongly that one of the benefits of hierarchy, compared with market relationships, is the completeness and accuracy of information provided to decision makers. Yet the executives in all the chains I studied emphasized the fact that franchisees were a vital source of information, one that was not duplicable in the company arrangement. Four of the five top executives noted the tendency of company people to say what they think the executives want to hear, and one of the antidotes to that tendency was the presence of franchisees. The role of the franchisee in the strategy-making process might be likened to the devil's advocate role identified by Janis (1983) in his analysis of the groupthink phenomenon. Franchisees served as an institutionalized source of constructive challenges to decisions, a role that was often missing in the company arrangement. As one senior executive charged with "selling" new ideas to franchisees put it, "Presenting to the president of the company is one thing, but presenting at the franchise meeting is another. You better be ready."

These data suggest that company and franchise arrangements complement each other in ways that provide a chain with more, and more varied, ideas for new strategies and with a more thorough selection process than either arrangement alone offers. A few features of each arrangement were particularly important: the MIS and functional expertise in company units, and the incentives and familiarity with local markets in franchise units. In the plural form, the loci of "competent curiosity"—a key to "hearing the voice of the market" (Barabba and Zaltman, 1991: 10)—were individual franchisees and the marketing department (which relied on data from company units), each offering a source of ideas not easily duplicated in the other. Each arrangement also offered different kinds and flows of information to decision makers. The face-to-face communication that characterized the franchisee-chain relationship offered information richness that was often absent in the company MIS data (Daft and Lengel, 1984). Yet the MIS data provided the chain with a more complete view of the system, because all company units were included in the data. This mixture of rich and broad data aided chains in balancing the needs of the overall system with the demands of varied local markets. Finally, the franchisees' direct access to decision makers avoided the potential distortions that sometimes accompany the serial transmission of information, which characterized the information flow through the company hierarchy.

While the strategy retention process was relatively straightforward in company units—the chain exercised authority—it was more complex in the franchise arrangement. Again, the plural form played a role. The chain's expertise, coupled with its ability to test and evaluate new ideas in company units, helped to persuade franchisees to adopt new strategies. A KFC franchisee explained her logic for following the company's lead: "If it makes sense for them, then it more than likely makes sense for me. They've got a lot of smart people at corporate, plus they've got a lot to lose if they screw up. I pretty much do what they do." Pizza Hut institutionalized this logic in its franchise contract by stating that franchisees did not have to implement changes in their units any faster than the changes were being implemented in company units. The MIS data were also a crucial resource the chain used in the persuasion process. At a KFC meeting of franchisees I attended, the company gave a presentation that showed the economics of a new strategic thrust to introduce more bite-sized foods that was based on data generated in company test markets. Similarly, Hardee's used detailed MIS data from company markets—such as revenue, cost, profit, product mix, volume by time of data—to persuade franchisees to add pancakes to their menus, a major change for a chain that had built its business around biscuits for breakfast. Through its company units, the chain was able to demonstrate its commitment to new strategies and provide evidence for why they were viable.[4]

Franchisees' participation in strategy making had a significant potential drawback. Chain managers were quick to note that franchisees often slowed down the decision-making process. One executive observed, "Sometimes when you [the company] just want to make a call and give something a try, you immediately remember that you'll have to stand in front of 100 franchisees and someone will surely ask why. The franchisees keep you honest and make you have reasons for everything. Sometimes this is helpful and sometimes it is not." Chain managers felt that sometimes a decision needed

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The literature on franchising has emphasized the schism of interest that exists between franchisees and chains, because franchisees' rewards are based on profit and chains' on a percentage of revenue (Rubin, 1978; Brickley and Dark, 1987). It is conceivable, then, that the chain might propose a high-priced, low-margin product from which it would benefit but that would injure franchisees. Such potential conflicts are mitigated if the chain owns units and faces the same economic pressures as the franchisees, i.e., has a plural form. This obvious and important advantage of the plural form has been ignored in the literature.

to be made even though good information to base it on did not exist; other times, decisions had to be made before good information could be gathered. In both cases, franchisees could be an impediment. Another executive worried that growing industry competitiveness made a slow decision process potentially debilitating: "There is not time in today's environment to take a vote with franchisees whenever an issue arises. We must be able to act quickly if we are to survive." Despite these concerns, executives still felt that franchisees made an important contribution to the strategy-making process. The CEO of Pizza Hut summarized nicely the weaknesses and strengths of the plural form in the strategy-making process: "Ideally, we would want more 'push back' on the company side and more cooperation on the franchise side. The best practical solution is to have both. Each side provides something that the chain needs."

DISCUSSION AND IMPLICATIONS

This qualitative study revealed how five restaurant chains met their dual objectives of achieving uniformity and systemwide adaptation. Company and franchise units have distinctive strengths and weaknesses when it comes to meeting those challenges, and the processes enabled by the plural form helped each of the constituent forms overcome some of its weaknesses. The modeling process facilitated the self-reproduction of the company structure in the franchise arrangement, strengthening uniformity. The ratcheting process strengthened the performance of the chain by enabling competitive benchmarking across arrangements. This process also helped company executives influence franchisees through the use of data generated in the company arrangement. The socialization process trained people in the practices of the company before they were placed in the franchise structure, increasing the diffusion of common operating standards and making persuasion easier with franchisees. The mutual learning process leveraged the distinctive competencies provided by company and franchise units, enhancing the adaptation process.

The design of the plural form is straightforward: two different structures—in this case, company and franchise arrangements—operate simultaneously to perform similar tasks (Bradach and Eccles, 1989). Each structure has strengths and weaknesses, and if an organization can use each to leverage the strengths and ameliorate the weaknesses of the other, then the overall organization will be stronger than if either structure operates alone. The four processes described above illuminate the interfaces between the two structures, highlighting how the plural form can provide performance benefits that are unavailable from either form by itself.

The plural form provides a means to deal with the timeless dilemma of achieving control and innovation in a single structure. Rather than relying on the horizontal differentiation of organic and mechanistic structures (Burns and Stalker, 1961; Lawrence and Lorsch, 1967) or on an ambidextrous organization that depends on temporal specialization (Duncan 1976), the plural form uses two different structures to produce variety, for innovation and control, and mechanisms to ensure the adoption and maintenance of standard practices. Although company arrangements tend to be better for controlling units and franchise arrangements tend to generate more innovations, even on those dimensions, each benefits from the presence of the other, because the effects of the ratcheting and mutual learning processes run in both directions.

The plural form's ability to provide both uniformity and systemwide adaptability hinges on two features of the form: (1) a balance between the amount of similarity and the amount of difference between the two arrangements, and (2) processes that link both arrangements. Units in a restaurant chain need to be similar both to preserve the trademark and so that valid comparisons can be made across units and structures. Indeed, the power of the plural form is derived from the built-in comparisons it enables. At the same time, there must be differences—in this case, in ownership and management structures—to produce variety. The challenge facing the chain is to strike a balance between similarity and difference: too much similarity will diminish variety, too much difference will overwhelm the capacity to maintain uniformity. This balance can only be achieved, though, if there are processes that link the constituent structures; otherwise, the structure is simply the sum of its parts. A key contribution of this research is that it identifies some of those processes. An important agenda for future research will be to understand better the other types of processes that connect different structures and to determine the conditions under which organizations take advantage of these processes.

This study suggests that plurality keeps control processes fresh and enables an organization to learn from and correct itself. White (1985, 1992) argued that multiple structures enable managers to "get action" through comparisons of performance that focus attention on problems and opportunities, as well as using people in one structure to "penetrate" other structures to effect change. In the case of plural-form chains, the franchise consultants serve this function with franchisees, and franchisees themselves serve this function vis-à-vis company units. Eccles and White (1986) pointed out another way multiple structures yield control to managers. Using the multidivisional firm as an example, they argued that the way profit centers are locked into a relationship with the market (the profit centers of other firms) and with hierarchies (the other profit centers within the firm) represents a powerful mode of control derived from the "enormous energies of self-reproducing social mechanisms such as interfaces" (Eccles and White, 1986: 204). These interfaces, and the processes they enable, emerge where different institutions abut each other, constraining and influencing one another, as happens in the plural form. We rarely look at these interfaces in our attempts to explain organizational performance (for an exception, see Padgett, 1981), yet if restaurant chains are any indication, it may be precisely at these interfaces, and in the configurations that produce them, that important outcomes are determined.

This line of argument has implications for the large body of research that addresses make-or-buy decisions. Scholars examining this question typically frame the issue as an either-or proposition, i.e., choosing among "discrete structural alternatives'' (Williamson, 1991): Why do firms make or buy a part (Monteverde and Teece, 1982), utilize a direct or third-party sales force (Anderson and Schmittlein, 1984), or wholly own foreign enterprises or ally with foreign partners (Hennart, 1991)? A common underlying assumption governing the analysis of these questions is that certain conditions lead to the use of certain institutions. Market arrangements, for example, are assumed to provide strong incentives, while hierarchies offer strong system responsiveness (Williamson, 1980). Then, the argument goes, depending on whether strong incentives or system responsiveness is more important, an organization chooses either a market or a hierarchy form. But what if an organization wants both, as most organizations do? Or what if the effectiveness dimensions the organization seeks are contradictory (Cameron, 1986), like tight control and local responsiveness? In such cases, the choice of any one form enables an organization to achieve one of its objectives but not the other. The plural form provides a partial solution to this apparent dilemma.

A few scholars have noted the distinctive properties of plural structures. Theories of tapered integration, for example, state that firms sometimes both make and buy the same part, to create a constructive tension between the firm and the contractor that inhibits the opportunism of both parties by allowing the firm to switch production between in-house departments and third parties (Scherer, 1970; Porter, 1980; Harrigan, 1983). Walker and Weber (1984) argued that information generated from making a part enables a firm then to contract more effectively with outside vendors. More broadly, Powell, Koput, and Smith-Doerr (1996) found that a firm's capacity to learn hinges on its engaging in the research process—to gain an appreciation of the value of new knowledge—concurrent with being tied into networks of firms in similar fields of endeavor (for examples, see Mowery, 1983; Bradach and Eccles, 1989). In each of these cases, the whole is more than the sum of the parts.

Although this research suggests that the advantages of the plural form outweigh the disadvantages, it is nonetheless important to be clear about the potential disadvantages. The most obvious drawback is that executives must be effective in operating with two entirely different organizational designs. The difference between these two designs was captured by an executive in one chain, who noted, "The worst thing you can do is treat a franchisee like an employee." Executives in chains had to be comfortable with two sharply contrasting management styles: one that was directive (company) and one that was more participatory (franchise). Anecdotal evidence from the chains I studied suggested that it was difficult to find people good at both. In addition, a separate administrative structure may be required for each arrangement, which, under some conditions, may create prohibitively high costs.

The second potential disadvantage of the plural form is that along with the strengths company and franchise arrangements offer come their weaknesses. The exercise of authority in the company arrangement, for example, enables the rapid implementation of strategies; at the same time, it tends to inhibit potentially useful challenges to those decisions. Similarly, franchisees present the chain with constructive conflict that may improve the quality of decisions; at the same time, that may slow down the decision-making process. The patterns of organizational behavior I have described indicate that the plural form enables chains to remedy some of these weaknesses, for instance, by using company-generated data to persuade franchisees to adopt a course of action, but the fact remains that each arrangement does come with a different set of problems that need to be managed. While these data suggest that the plural form seems to provide chains with the best of both forms, rather than the worst, this issue needs to be examined more closely in future research.

Future work should also investigate how the functioning and performance of the plural form compares in chains with different mixes of company and franchise units, ranging from pure company to pure franchise chains. While most restaurant chains are plural forms, in 1988 four of the 100 largest chains were pure franchise systems (Technomic, 1989). The organizational behavior patterns described above may help explain this figure: in the absence of company units, it may be extremely difficult for a chain to manage franchisees effectively (note the direction of the arrows in Table 3). A larger number of pure company-owned restaurant chains existed—22—but these were almost entirely small chains. With one exception, pure company chains had fewer than 500 units. It may be that the weaknesses associated with company arrangements, especially as they relate to control and innovation do not become limiting until a chain grows large, bureaucratic structures emerge, and the organizational distance between the local unit and key decisions makers widens; at that point, the presence of franchisees may be needed to strengthen performance. Such hypotheses need to be examined in future research.

This article has provided a model for understanding the management of an important but largely ignored organizational form: chain organizations. It has also shed light on a set of processes that may transcend this particular setting and have implications for how we build organizations that are capable of self-correction and self-renewal. The processes of the plural form may enable organizations to escape their natural tendency to ossify over time by creating a built-in constructive tension between parts that keeps the organization receptive to new influences, yet in control. As Quinn and Cameron (1988: 302) argued, "Having multiple frameworks available is probably . . . the single most powerful attribute of self-renewing individuals and organizations." This line of thinking suggests that researchers need to pay more attention to how different architectures of arrangements shape organizational performance.

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