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Declining Process of Franchise: Through The Lens of Stakeholder Management

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Introduction

The organizational life cycle comprises four phases: introduction, growth, maturity, and decline/renewal (Quinn & Cameron, 1988). Moreover, the decline phase has five phases: blinded, inaction, faulty action, crisis, and dissolution (Weitzel & Jonsson, 1989). The organizational decline is still under-investigated, but like doctors that try to understand illnesses to provide life, the understanding of the declining process can provide longer business cycles and prevent failure (Serra, Pinto, Guerrazzi, & Ferreira, 2017). So, this paper seeks to explore the organizational decline in franchise systems, based on the stakeholder theory.

In a franchise system, franchisor and franchisee are stakeholders because they influence their goals mutually (Freeman, 1984). Is expected that franchisees and franchisor to act in alignment towards goal (Scott, Shankar, & Aravindakshan, 2006), but this relationship is not always cooperative. In face of decline, how do they act?

How do companies in franchise system deal with decline based on stakeholder theory? There are articles regarding failure of companies working under franchise system (Holmberg & Morgan, 2003; Rodríguez-Rad, Rondán-Cataluña, & Macías-Molina, 2017; Falbe & Welsh, 2007; López-Fernández & López-Bayón, 2018). However, little is known using stakeholder models.

This paper contributes to the theory of organizational failure in two ways: understanding how franchisees and franchisors deal with each other during the declining process from the perspective of stakeholder theory and insights on how franchisors should deal with franchisees when it franchisor faces decline.

The research conducted has a qualitative approach and applies the multiple case study research strategy. I use analyze four different companies that operates as a franchise system. Each one of them is belongs to a different market and are in different stages of business life cycle. Data was collected through in-depth interview and documents of the franchisor and franchisee's relationship contract.

Therefore, the theoretical background is built in five parts: business life cycle, organizational decline, stakeholder theory, franchise system and decline in organizations under franchise systems.

Theoretical Background

This research has five background theories. First, I analyze literature of business life cycle because the last part of it is decline and is key to understand what comes before decline. Then, I move to declining process itself to clarify how it happens and how companies respond to it. The third part I look at two models of stakeholder management, which are the theoretical lens of this paper. The fourth theoretical background regards franchise system, as I expect to comprehend how this system works. At the last part, I present previous literature on the franchise decline and what is the gap I contribute.

Business Life Cycle

Quinn and Cameron (1983) synthesize nine different models of business life cycles in one with five stages. They noticed that from the nine models, only one had a final phase of decline or failure. As the company grows, new challenges appear and the company's understanding of effectiveness conceptualization changes. So, adaptation is necessary in order to respond to these changes and support growth.

Greiner (1998) adopts another perspective. He argues that companies undergo a process of evolution and each phase of this process is preceded by a revolution. These revolutions are

periods of turbulence that allow companies to advance in their growth. However, if the company does not adhere to the proposed changes during the turbulent period, the likelihood of failure is much higher.

Both perspectives understand that companies can change to survive, even with crises and turbulent periods (Greiner, 1998; Quinn & Cameron, 1988). However, Hannan and Freeman (1977) have a deterministic approach. They argue that companies cannot change much and suffer inertia due to external and internal pressures. So, the only way a company has to survive is to be in an environment with no change. Considering that unchanged environments are almost impossible, all companies have high risks of declining (Hannan & Freeman, 1984).

Companies need to understand at what stage of the organizational life cycle they are, in order to better respond to their position (Jaafar & Halim, 2016). Companies face more risks during introduction, growth and decline, because they have fewer resources than companies at maturity level (Shahzad, Fareed, Wang, & Shah, 2019). Nevertheless, if those risks remain unmanaged, companies will fail one way or another.

Declining Process

The decline starts when companies are not able "to anticipate, recognize, avoid, neutralize, or adapt to external or internal pressures that threaten the organization's long-term survival" (Weitzel & Jonsson, 1989: 94). Recognizing that a company entered in the declining phase is not easy. Hence, answering to fast and significant environmental changes is difficult; if the company does not respond properly, it will be led to failure (Thompson, 1967).

The faster a company responds to declining, the better. As time goes by during the declining phase, attempts to revert results become more costly to the organizations but failure can be avoided if the company tracks internal and external movements, affecting current costs (Hambrick & D'Aveni, 1988).

Some signs of the declining process are employees' surplus, incompetence tolerance, unclear goals, and outdated organizational structure (Lorange & Nelson, 1987). The majority of declining signs are qualitative during the beginning of the declining process, but companies are usually sensible to quantitative data, making it hard for them to notice the introduction of failure (Miller & Friesen, 1980).

In order to survive, an organization must modify the structure, strategy, and employees and try a turnaround (Hedberg, Nystrom, & Starbuck, 1976), it may lead to good results or not, but no action surely leads to failure. There are three layers to understand how fail to changes take place in an organization: surface structures (visible changes), intermediate structures (how narrative about changes rolls out in the organization), and deep structures (how failure is shaped) (Schwarz, Bouckenooghe, & Vakola, 2021).

Depending on how fast a crisis takes place (gradually built crisis or unexpected event) and what is the origin of the crisis (economic nature or social nature), companies may choose two distinct responses: either they stay rigidity or try to adapt (Sarkar & Osiyevskyy, 2017). When a company faces a deep crisis with financial constraints, exploitation strategy fits better the situation, even this strategy leading to decline. But if resources are available and the company may take risks, exploration is a better option because it generates new opportunities (Osiyevskyy, Shirokova, & Ritala, 2020).

Stakeholder Management

This article uses Freeman's (1984: 46) definition of stakeholder: 'any group or individual who can affect or is affected by the achievement of the organization's objectives'. However, those different groups and individuals do not have equal influence over the focal company, some are more important than others (Rowley, 1997).

Centrality and density may affect the extent of this influence (Rowley, 1997). Centrality is "the extent to which it acts as an intermediary between its stakeholders" (Rowley, 1997). Density measures the number of bonds of a network: more bonds, higher density (Oliver, 1991). Therefore, comprehending both the density and centrality of a network, I understand how companies respond to stakeholders' pressures (Figure 1) (Rowley, 1997).

		Centrality of the Focal Organization	
		High	Low
Density of the Stakeholder Network	High	**Compromiser** (mutually equal pressures)	**Subordinate** (focal company is subortinated to the stakeholders)
	Low	**Commander** (focal company controls stakeholder)	**Solitarian** (focal company tries to avoid stakeholder pressures)

Figure 1: Matrix of centrality vs. density
Source: Adapted from Rowley (1997)

I use Rowley's (1997) model for this research for two reasons. First, this model takes into consideration different sets of influence, depending on the firm's level of network and the centrality of the focal company. Second, it also tries to predict how firm reacts to stakeholder pressures.

Stakeholders may affect the survival of a company, as proposed by Pajunen (2006). This theory is based on two pillars: resource dependency and network position. Figure 2 presents the position of power, based on these two theories.

Network position based power				
	High	P	G	G
	Moderate	M	P	G
	Low	M	M	P
		Low	Moderate	High
		Direct source dependency based power		

Figure 2: Matrix of stakeholder influence
Source: Adapted from Pajunen (2006)

Each letter (P, G, M) presents a different type of power of the stakeholder versus the focal company. Minor stakeholder (M) does not influence the focal company's survival at any level. On the other hand, potential stakeholders (P) may affect company's survival. Governing stakeholders (G) directly influence focal company survival. Therefore, companies with at least moderate network position and moderate source dependency have potential influence over other organizations' survival, partially responsible for their endurance (Pajunen, 2006).

I also decided to use Pajunen's (2006) model to push further this research. This model in its origin is already in a framework of failure. It was applied to a pulp and paper firm that faced decline. As decline is considered a process, Pajunen's model fits my studies because it has a dynamic approach in which stakeholders can change the position they are (e.g. they can

move from being a minor stakeholder to a potential stakeholder and vice-versa) so it can happen during the decline.

Franchising System

The main goal of the franchising system is to distribute franchisor's products and services through franchisee businesses (Dornelas, 2001; Hisrich & Peters, 2004). In this sense, the franchisor and franchisees establish a cooperative strategy with shared competencies to reduce risks (Scott, Shankar, & Aravindakshan, 2006).

The central part of the franchising system is the intense relationship between franchisor and franchisee where the franchisor must balance the level of control and autonomy of the franchisees (Fladmoe-Lindquist, 1996; Chen, 2010). Franchising systems require controlling procedures to confirm that franchisees follow standards and avoid problems with franchisee threatening franchisor`s image (Jensen & Meckling, 1976; Scott, 1996; Fladmoe-Lindquist, 1996; Elango, 2007). In this system, the franchisor provides support, brand, products and know-how, while franchisees receive it in exchange for paying royalties and taxes, reducing the franchisee`s probability of failure (Combs, Michael, & Castrogiovanni, 2004; Dant, Grunhagen, & Windsperger, 2011).

According to Luiz et al. (2006), franchising systems are better businesses than independent businesses because this system provides a business model that holds a higher level of innovation and information compared to other companies in the same market of the franchise.

Franchising System in Decline

In a literature review, Holmberg and Morgan (2003) identify the main research themes and approaches of franchise failure background. Based on Uniform Franchise Offering Circular, they compile five main reasons for failure in franchisees: "transfer" (when a franchisee store has a new owner); "cancellations" (franchisee is cancelled by the franchisor); "nonrenewals" (when franchisor does not renew the contract); "reacquisitions" (franchisee bought by franchisor); and "other reasons" as the fifth reason for failure.

However, failure do not happen only in franchisees, but may come from franchisor as well. The main reasons for franchisor failure based on the perception of franchisor executives are related to franchisor's dishonesty, market saturation, faddish product appeal, over expansion, and the most perceived of all is competition from company-owned units (Fabel & Welsh, 1998).

Even decline being the last part of a business cycle, in franchise systems companies may have an anticipated termination due to the conflicts between franchisor and franchisee (López-Fernández & López-Bayón, 2018). One of the main aspects for such end is the franchisee's owner desire to have a more autonomous entrepreneurial behavior when deciding on two controversial franchisor control policies: pricing strategies and advertising budget allocation in local markets (López-Fernández & López-Bayón, 2018).

Based on financial data of franchises, Rodríguez-Rad, Rondán-Cataluña, and Macías-Molina (2017) measure reasons for insolvency in franchise system. They discover that there are some features specifics of the franchise system, which depending on its intensity, are more likely to lead to insolvency such as advertising fees, contract duration, and store minimum size, among others with less influence.

In the literature review, I found a research gap relating stakeholder theory models with franchisee and franchisor in the process of failure. So, this paper aims to address this research gap.

Propositions

According to Melo & Andreassi (2010), there are two main theories regarding franchises systems in the literature: resource scarcity theory and agency theory. The first argues that companies choose to be in a franchise system due to resource scarcity (Oxenfeldt & Kelly, 1968). Franchisor seeks to expand business, but as it does not have enough resources (e.g.: financial, managerial, market information), it decides to expand with a franchise system (Mariz-Perez, Garcia-Alvarez, 2009; Oxenfeldt & Kelly, 1968). Franchisee seeks experience, knowledge, and branding, for example (Mathewson & Winter, 1985; Brickley & Dark, 1987).

Considering that franchisor and franchisees are stakeholders of each other, and the resource dependency, I adapted Pajunen's (2006) table to the franchising system (Figure 3).

Network power of a franchisee vs. other franchisees	Franchisor source dependency over franchisee: Low	Moderate	High
High	P	G	G
Moderate	M	P	G
Low	M	M	P

Figure 3: Matrix of stakeholder influence adapted to franchising system
Source: Adapted from Pajunen (2006)

Franchisee as minor stakeholder (M) cannot influence the franchisor. Franchisee as potential stakeholder (P) may influence the franchisor. Franchisee as governing stakeholder (G), influences controls franchisor`s decisions.

First proposition: the declining process occurs when a franchisee is in the governing or potential position, because franchisor loses its role in the franchisor system.

According to Melo and Andreassi (2010), the agency theory is the main theory to explain the franchise system at international literature. Agency theory argues that the relationship between two parts tends to generate conflicts. In the franchise system, both franchisor (principal) and franchisees (agent) have divergent interests, which increase costs of agency and opportunism, leading franchisor to increase controlling tools (Justis, Castrogiovanni & Combs, 2006; Chen, 2010; Jensen & Meckling, 1976). So, the franchisor should be in the center of the franchising system`s network (Rowley, 1997), as the principal. The franchisor should lead the franchise as a whole network. I consider the franchisor as focal organization and franchisee as the stakeholder being analyzed. Therefore, I adapted Rowley's (1997) table to the franchising system (Figure 4).

Density of the franchisee network	Centrality of the franchisor: High	Low
High	**Compromiser**	**Subordinate**
Low	**Commander**	**Solitarian**

Figure 4: Matrix of centrality vs. density adapted to franchising system
Source: Adapted from Rowley (1997)

When the franchisor is compromiser, it has the bargain power over franchisees, but high density of franchisee may influence franchisor. As commander, franchisor is the principal agent of the franchising, fulfilling its role. As subordinate, the franchisor becomes subordinate to the franchisees. The solitaire position, both franchisor and franchisees become subordinate to external stakeholders.

Second proposition: decline occurs when the franchisor is subordinated to the franchisees, or when the franchise as a whole become solitarian.

Methodology

Since this paper seeks to understand the phenomenon of declining process through the lens of stakeholder theory applied to franchise system, a qualitative approach fits this goal best (Denzin & Licoln, 2006). Following Eisenhardt and Graebner's (2007), the chosen research strategy was multiple case study. The unity of analysis are companies that use franchise system to operate.

I analyze four different companies in different stages of life cycle. As franchise has two operational parts (franchisor and franchisor), they may be in different life cycles. Two of them operate in maturity stages in franchisees and franchisor, one has franchisees in decline and franchisor in maturity, and one has franchisees in maturity and franchisor in decline. Below, I present in the table 1 the reasons why I decided to inquiry those companies. It also presents the business life cycle stage of the franchisees and franchisor of each company.

I also have chosen to analyze businesses in maturity level in order to compare both life cycle stages: maturity and decline.

As I was required to not reveal the identity of the companies studied, I decided to name each one based on the market they are: "Fast-food 1", "Chocolate", "Aesthetic", and "Fast-food 2".

Table 1 – Companies analyzed

Company	Reason for inquiry	Franchisee's life cycle stage	Franchisor's life cycle stage
"Fast-food 1"	Good relationship between franchisor and franchisee.	Maturity	Maturity
"Chocolate"	Unstable relationship between franchisor and franchisee.	Maturity	Maturity
"Aesthetic"	International company	Decline	Maturity
"Fast-food 2"	Franchisor in turnaround process	Maturity	Decline

My data collection was done with in-depth interviews with franchisors and franchisees. Documental data regarding the franchisee and franchisor contracts were collected. Each franchise system is analyzed from two different data sets (franchisor or franchisee interview and their contracts). Data were triangulated to increase research reliability (Flick et al., 2004). Below, I demonstrate which data set I could analyze for each company (table 2). As this is a working paper, further data collection will be done in order to increase paper's quality.

Table 2 – Triangulation data set

Company	Contract	Interview with franchisee	Interview with franchisor
"Fast-food 1"	X	X	
"Chocolate"	X	X	

"Aesthetic"	X	X	
"Fast-food 2"			X

For the in-depth interviews, a set of questions was designed based on the theory to assure that the most relevant aspects of those theories were being used as background (Arsel, 2017). Table 3 shows each question used as support for the interviews, the goal of each one, and with which reference the question dialogs.

Table 3 - In-depth interview questions

Question	**Goal**	**Theory**
What are the most relevant resources the franchisor provides? What does the franchisor expect from the franchisee? How is your relationship with between yourselves?	Identify the main advantages of the franchise system. Understand the franchisor and franchisees' relationship and how demanding this system is.	Oxenfeldt & Kelly, 1968
How does the franchisor receive franchisees' requests of franchisee? Is there much bureaucracy? Do you feel that larger franchisees receive better treatment on their requests? Is there equality among large and small franchisees? Have the franchisees ever made a collegiate request to the franchisor?	Understand the bargaining power of franchisor and franchisee and the influence power franchisees have over the franchisor.	Pajunen, 2006
Is there any incentive for franchisees to open more stores? Do those who already have a franchise store have a preference for opening new stores compared to newcomers?	Understand if there is a stimulus to a governing franchisee.	Pajunen, 2006
Who is the most important part of a franchise system, the franchisor or the franchisee? Can you use external partners to the franchise system?	Understand centrality and network.	Rowley, 1997
What does lead franchisees to failure? What about the support from the franchisor during this period? What are the reasons for franchisee's failure? What are the reasons for franchisor's failure?	Enquire declining process in the franchise system.	Weitzel & Josson, 1989
At what level do you think you have a conflict of interest with the franchisor?	Enquire agency theory in the franchise system.	Baker & Dant, 2008

Both, franchisor and franchisee were questioned in different manners but following the same themes.

Results and Discussion

At the next sections, I analyze the data of interview and contract for each company. I categorized the main information based on the theories of in-depth interview (table 2). For the contract analysis, I made the same categorization, but with the contracts' information. The categories I used are: (1) resources available (2) franchisee's requirements bureaucracy (3) franchisee groups (4) bargain power (5) franchisee declining process (6) incentive to new stores opening (7) uncertified suppliers (8) equity between large and small franchisees.

I present them in a continuous text. At the end of each section, I applied the data to the stakeholder models and analyzed the propositions as true or false.

Fast-food 1
Interview

This company started in the restaurant business in the 80's with a small restaurant. After ten years, the company decided to change the business model; it became a franchisor to expand its business. The interviewee owns one restaurant of this franchise. As he mentioned, there were three reasons to choose this franchise system: focus on low-income families, the level of professionalism, and healthy menu options. This franchisee is not in decline.

The interviewee has a good relationship with the franchisor. He cited when he had problems with the authorized franchisor's supply chain and was allowed to buy from unofficial suppliers to avoid being out of stock. He also told us when the new authorized suppliers decided to increase the price abusively. Back then, different franchisees formed a committee to solve the problem with the franchisor, and the franchisor solved the problem.

The interviewee`s restaurant is not suffering a decline. However, when asked about the declining process, he said that if a franchisee is on a hard decline, the franchisor interferes and takes control over the store. The interviewee said that from the franchisor perspective, it might fail due to problems with cannibalization, supply chain, and logistics, leading to the franchisor's failure. From the franchisee's perspective, unprofessional management and the store's bad location may lead to the franchisee's failure.

Contract

The contract between the franchisor and franchisee analysis shows a disequilibrium in the number of clauses regarding requirements (franchisee has 52% more clause to follow than franchisor). In the "franchisee`s requirements", there are five financially punitive clauses if franchisee does not follow the rules, but in the "franchisor`s requirements", there is no financially punitive clause. So, the franchisor is more important than the franchisee because it has more bargaining power over the franchisee.

The contract cites the "assembly of franchisees" and "marketing board", but it does not specify how franchisees are chosen to be part of it. If it is related to the number of stores or importance of revenue, it occurs a disequilibrium of power among large and small franchisees.

In relation to potential franchisee's requests to the franchisor, the franchisee must wait for a response from the franchisor. Not all products must come from certified suppliers, so the franchisee may evolve its network and increase power. The contract foresees the decline of franchisees and proposes to takeover by the franchisor, in exchange for the financial forgiveness of the franchisee`s debts.

Proposition analysis

At the matrix of influence of stakeholder applied to franchise systems (PAJUNEN, 2006), the franchisee "Fast-food 1" is classified as a minor stakeholder. In order words, the franchisor depends little on the resources of this franchisee because it is a single store and, in this franchise, there is equilibrium between large and small franchisee as both receive the same treatment independently of franchisee size. However, this franchisee has low power over other stores in assembly, because it is a single store. It is not in the franchisor's interest to have large franchisees, which could influence too much the business and take the governing position.

At Rowley's (1997) model, the franchisor is at the commander position. Regarding centrality, the franchisor is more important, being at the center of the franchise system, because it imposes standardization through contracts and training. For the franchisee, density is low because it cannot use its own network to do business but depends on the franchisor's network.

For “Fast-food 1”, propositions 1 and 2 are true: to do not deliver the franchise to failure, a franchisee must have low influence over the franchisor and the franchisor must be as commander, its original function at the franchise system.

Chocolates

Interview

This company is a franchise with 1500 stores that sell only chocolate derived products. It is over 25 years old. And it seeks to become the largest chain of fancy chocolate in the world.

The interviewee has two stores of this franchise and believes it has a good product. In the beginning of the interview, he mentioned that at least 20% of franchisees in this company have problems of management. This happens partially because of low professionalism of franchisee: many are unskilled retired people and other people come from unrelated to business backgrounds. They are people who have saved money during life, and decided to invest in this business.

This profile of franchisee owners can be very damaging to the organization. He tells a story of when the factory had problems in calculating demand and overproduced chocolates. Facing a difficult situation, the factory decided to send these products for franchisees to sell them. But, than, franchisees became overstocked with these products, and franchisees started having problems with cash flow. In such situation, franchisee owners could not identify that the problem was related to the overstock, so they could not deal as group of franchisees against the franchisor.

Usually, they are small franchisee (800 owners and 1500 stores), less than two stores per owner. He also said that it is very challenging for franchisor to deal with such number of different single-store owners, but such high level of standardization of this franchise helps them to deal with this. He also considers that there is a probability of franchisor preference on single-store owners to limits franchisee`s bargain power over franchisor.

This franchise has only one product supplier: franchisor’s factory. All products that are sold in the franchisees come from this factory. He said that the franchisor is very restricted in allowing franchisees doing things on their own (including sales promotions and price discounts). If the franchisee receives two warnings, the franchisor takes over the store. Even with those problems, these franchisees are not facing decline.

The main resources available to the franchisees are: know-how, brand, products, handbooks, intranet system, credit, training and store's architecture. He said that by contract, any change in standards should be approved by the franchisor making the relationship very bureaucratic in his point of view.

Contract

The contract presents the assembly of franchisees, which should facilitate the communication between franchisor and franchisees. The assembly also needs to propose how the advertising budget should be spent (nationally or regionally). However, franchisee is prohibited to be in more than one sort of assembly. So, large franchisees have more power, even with franchisor's limitation of assembly participation.

Franchisor has more power as it has no punitive clause, compared to franchisee's clauses. The franchisor allows itself to enter into franchisee's territory through different sales channels (institutional clients, sales machine, automatic sales machines, and personal sellers, among others), creating cannibalization with franchisees.

There is no incentive for franchisees to increase the number of stores. However, if the franchisee decides to open another store it depends on the quality of the original store: the franchisee must be compliant with debts, original store must be completely adhered with franchisor's standards, and financially healthy. It is completely prohibited to buy products from

unofficial suppliers, mainly the selling product chocolates. In case of franchisee's decline, franchisor has preference on taking control over the store.

Proposition analysis

At the matrix of influence of stakeholder applied to the franchising system (Pajunen, 2006), the franchisee of “Chocolates” has the minor position of influence over the franchisor because it cannot influence the franchisor as it has two votes on the assembly of franchisees. The franchisor does not depend much on one franchisee’s resource because usually the number of stores of each franchisee is less than two.

At the matrix of centrality vs. density (Rowley, 1997), the franchisor of “Chocolates” holds the commander position taking in consideration that this is the main actor of this franchise as it is the single-supplier of products, it has more power in contract and generates bureaucracy to franchisee’s request. Franchisee has no network power, as all the suppliers must be officially approved by the franchisor.

Therefore, for the franchisee of “Chocolates” propositions 1 and 2 are true: (p1) to do not take the franchise to failure, the franchisee must have low influence over franchisor and (p2) the franchisor has to be in the commander position, where it is the main actor of the franchise.

Aesthetic

Interview

This international franchise has over than 300 stores in Brazil, and offers low price services of photodepilation with modern technology. In the home country of this franchise, it became famous with single-price strategy of photodepilation for the whole country. Nowadays, the company is in over 13 countries, with 1300 stores.

The interviewee has six stores of this franchise. He said that he had some different reasons to decide for this franchise: the company was coming to Brazil and it seemed a good business opportunity. The home-country franchisor company had different aesthetic services and products.

However, during the negotiation he noticed the first problem: the Brazilian franchisor was too small. This is the case of a master franchisor, which has the rights to sell franchisees and to manage brands in a different country of the original’s franchisor home-country. Even, predicting he could have problems, he decided to go ahead with the business.

All his six stores face financial problems, so are in decline. He said that he has somehow mismanaged the franchisees. Some other problems contributed to the decline: master franchisor’s childish and opportunist behavior. In Brazil, “Aesthetic” is allowed to sell only three services, but in the home-country franchisees have a full aesthetic portfolio service.

The master franchisor, in order to increase short run results, decided to create different franchise brands for different services. So, the franchisee cannot add services to increase revenue. The only way to increase it is through volume. This decision has generated a tremendous conflict against the franchisor, because his decision of going ahead with the business was based on the home-country's business model, with the perspective of increasing the number of services.

He said that being under a master franchisor difficult to increase sales in a store, because the franchisor business model is based on selling franchise, not gaining money with franchisees. The higher number of stores sold, the better for them. This master franchisor did not understand about this market more than the franchisee, because it only reproduces the standards of the original franchisor.

The interviewee believes that poor training and low level of professionalism in the aesthetic industry influences the declining process of his stores, because the cost of controlling employees are high.

Contract

By contract, the resources available to franchisees are: implementation, operation, and administration system, equipment of photodepilation, brand, product, services, employees training, and IT system. In case of problems with territory invasion between franchisees, problem is solved by franchisor, and franchisee must readily obey franchisor's decision.

Franchisees are not allowed to have their own web page in the internet, neither are authorized to have unofficial suppliers. Products for franchisees must be bought through internet, and credit must be available to this store.

The contract does not cite any assembly or board for franchisees, but are not prohibited to create one on their own. There are only punitive clauses to the franchisees, but not to franchisor, demonstrating their power over franchisees. There are no incentives to opening new stores. In case of decline, all equipment and every material that has the brand should be given back to the franchisor and pay for fine contract's termination.

Franchisees are not allowed to buy any product from unofficial supplier, but franchisees are allowed to ask franchisor for exceptions.

Proposition analysis

Influence of stakeholder's matrix (Pajunen, 2006) applied to "Aesthetic's" franchisee minor, because even being a six-store chain it had no strength to get in touch with other franchisees and form a group to deal with portfolio problem. Franchisor has no dependence on franchisee's everyday sales, because as master franchisor its revenue is based on selling and opening new stores.

Regarding matrix of centrality vs. density (Rowley, 1997), the franchisor holds the commander position because the franchisee cannot buy any product or service from unofficial suppliers generating low density of network for this franchisee. Centrality of the franchisor is high because it has more bargain power over franchisees.

Therefore, for this franchisee chain of "Aesthetic, proposition 1 and 2 are false. In order to do not take the franchise to failure, franchisee needs to have low influence over franchisor (p1) and the franchisor should be in the commander position (p2), but "Aesthetic" is on the right position, but faces failure due to financial problems.

Fast-Food 2

Interview

"Fast-food 2" is my last franchise to be analyzed. It is a fried chicken fast-food chain. The first Brazilian chain inspired by traditional American fried-chicken. From the beginning, it was conceptualized to be a franchise. Just after the first store, the owners decided to expand business. The interviewee is one of the owners of the franchisor. Currently, it is passing through a business turnaround, as it has been suffering decline for the last 20 years, due to problems in business family succession. The interviewee is not one of the original owners, he is in the consulting business.

One of the owners asked his consulting company to revitalize the business, but could not afford for the service. The interviewee proposed to become partner of the franchise, in exchange for the service.

The turnaround process had to deal with new suppliers, rebranding and new contract with franchisees that also had to restructure their stores. He mentioned that, as franchisor is easier to deal with new franchisees openings, because they could start already with the new

brand. The franchisees that survived had almost no contact with the franchisor. Franchisees were paying little or no royalties to the franchisor, due to the lack of support. Franchisees were misbelieving the new turnaround trial, as in the past 20 years they had to deal with unfulfilled promises.

Franchisor provides suppliers, training service and meal preparation, support franchisees to get credit, uniformed clothing and menu. It expects the franchisees to follow the standards, because as a franchisor partner, he does not want to get worried about operational problems. He said that contract has rules to be followed by both parties. The problems the company was facing was also franchisor's fault.

There is not much bureaucracy to get requests from franchisees. Every two months, franchisor's directors have a meeting with all franchisees, but the interviewee thinks that when they grow, they will need to find new ways to deal with franchisees. The franchise has no sort of committee or assembly of franchisees. Franchisor has no incentive for franchisee's growth, but see it happening in the future.

In his view, both franchisor and franchisees are important for the company. He said that franchisees may commit mistakes, but when franchisor commits mistakes, the whole chain suffers because the standards of the business will reproduce the mistakes in a systematic way. Rivalry between franchisor and franchise can be a problem that leads to failure.

Unfortunately, for this franchise I could not have access to contracts for confidentiality reasons, so my analysis will be based on interview only.

Proposition analysis

According to the influence of stakeholder (Pajunen, 2006) of "Fast-food 2", franchisees hold the potential influencer (P), because there is no group of franchisees and their power are equal among themselves. As mentioned in the interview, royalties paid by franchisees were getting close to none during the declining process, so franchisor dependency over franchisee is high. The franchisor decided to ask for consulting because they were facing decline process.

Matrix centrality vs. density (Rowley, 1997) shows that this franchisor is subordinated to the franchisees. Each franchisee could buy inputs from any supplier of its own network. The franchisees became the center of the business as the role of franchisor was reduced to almost nothing.

Therefore, proposition 1 and 2 are true. As franchisees are potential influencers and the company faces decline. The franchisor is subordinated to the franchisees and are facing decline.

Discussion and Conclusion

In the case of the influence of stakeholder matrix (Pajunen, 2006), "Fast-food 1", "Chocolates", and "Aesthetic" franchisees are minor stakeholders, because one franchisee does not have more network power than other franchisees and franchisor's source dependency over the franchisee are also low. For "Fast-food 2", no franchisee has more power than other franchisees and franchisor source dependency over franchisees is high, so it holds a potential stakeholder position (Figure 5).

In the case of the centrality versus density matrix (Rowley, 1997), "Fast-food 1", "Chocolates", and "Aesthetic" franchisor is the commander because the density of the franchisee's network is low and the centrality of the franchisor is high. For "Fast-food 2", the density of the franchisee's network is high and the centrality of the franchisor is low, so the franchisor becomes subordinate to franchisees (Figure 6).

"Fast-food 1" and "Chocolates" are franchisees that are not in decline and which both propositions are true. "Aesthetic" and "Fast-food 2" are failing, but not both propositions are true. One main difference between them that I would like to reinforce: "Aesthetic" is franchisee and "Fast-food 2" is the franchisor.

Network power of a franchisee vs. other franchisees		Low	Moderate	High
	High	P	G	G
	Moderate	M	P	G
	Low	M ("Fast-food 1", "Chocolates", "Aesthetic")	M	P ("Fast-food 2")

Franchisor source dependency over franchisee

Figure 5: Matrix of stakeholder influence adapted to franchising system with results applied
Source: Adapted from Pajunen (2006)

Density of the franchisee network	Centrality of the franchisor	High	Low
	High	**Compromiser**	**Subordinate** ("Fast-food 2")
	Low	**Commander** ("Fast-Food1", "Chocolates", "Aesthetic")	**Solitarian**

Figure 6: Matrix of centrality vs. density adapted to franchising system with results applied
Source: Adapted from Rowley (1997)

As I have had interviewed an "Aesthetic" franchisee chain and a partner of "Fast-food 2" franchisor, I believe that both propositions are true when the franchisor is in decline. In the "Chocolates'" interview I found that 20% of franchisees face mismanagement, but the franchise, the company as a whole, was not declining.

When I started this paper, I believed that governing and commander franchisees over franchise were a cause of decline. "Fast-food 2" shows something different: franchisees become more powerful than franchisor when franchisor faces decline. Governing and commander positions are the consequence of failure of franchisor.

Analyzing the interview, I noticed that "Fast-food 2" franchisees began to be unsubordinated to the franchisor because franchisor became unsupportive. The franchisees that survived to the decline decided to follow on by themselves, without being under franchisor`s standards. So, I infer that one of the reasons for some franchisees to fail happened because they followed standards of franchisor. This is in line with López-Fernández and López-Bayón, (2018), because franchisees had to be more entrepreneurial, not following franchisor standards, in order to survive.

Currently, the franchisor is going through a turnaround process. This would be very difficult with no franchisee survival. There is no franchise system with no franchisee. Therefore, my recommendation is whenever a franchisor is facing declining process; they should be consciously flexible with franchisees. For franchisor to survive is key that franchisees must be

a well-established business. If “Fast-food 2” had more franchisees surviving by now, maybe they would have more strength to turnaround.

These findings are relevant for managers and business people who decide to engage their organizations in a franchise system. In addition, it is relevant for the academy, because there is a lack of research using the stakeholder theory to explain the decline process that franchises face.

Some of the limitations of this article are: interview based on opinions of franchisees and franchisors, which may hide information or be biased by point of view; not getting the “perfect” triangulation (franchisor interview, franchisee interview and contract analysis) on the same case study; there are other stakeholders which were not included in the research (e.g. for “Fast-Food 2”, I did not took into consideration family conflicts and “Aesthetic” had a different business model, not considering the original franchisor). And also, being this my first academic research, maybe I could not analyze deeper aspects of data collected.

For future research, I recommend longitudinal analysis of the cases. Also, franchisees that could turnaround even under the pressures of the franchisor standards, and aspects of flexibility of franchisors over franchisees.

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