# 7 Years After: Turbulence in the Slovenian Franchising

Igor Pavlin
Head Management and Entrepreneurship Development
International Center for Promotion of Enterprises
Dunajska 104, SI-1001 Ljubljana
Slovenia
Tel. 386 61 1682 331
Fax:386 61 1682 775
Email: igor.pavlin@icpe.si

**Presented at the**
**International Society of Franchising**
**19th Annual Conference**
University of Westminster
London, United Kingdom
20-22 May, 2005

***Keywords:***
*Emerging market, plural ownership forms, conversion of voluntary chains, SME development, franchise ethics*

***Abstract***
*Even before joining the EU, the Slovenian companies practicing franchising experienced turbulent times. Most franchise systems operate in the area of retailing that is confronted with international competition. Diversity of ownership forms and business formats makes it difficult to extract franchising from other approaches that companies apply. International networks are tempted to enter the small Slovenian market by using shortcuts, without proper pilot operations. As a result both domestic and international franchise networks do not differ in the rate of exits or takeovers. The new phenomenon in the Slovenian franchising is an intermediary stage of voluntary chains, where domestic craftsmen and other small businesses enter, before such chains are converted into proper franchise operations. Slovenia as a transitional economy lacks the opportunity for gradualism, which has been possible to the developed economies of the "old Europe". The parameters that were surveyed 7 years ago were incorporated into the recent research, and are included into the comparative analysis. At the outset we are still puzzled by which network does, or does not fit, into research sample / population as it does or does not fulfil the discriminatory criteria to be considered a franchise system.*

## Executive Summary

Initially the issue of discriminative value of the definition of franchising is discussed in broad terms together with the consequences for the franchising research as well as for the practice of the accessing companies into the membership of franchise associationsns as guardians of the franchise buiness ethics. This issue is in later chapters related to the conversion franchising, where on their transformation route individual workshops become units of voluntary chains or cooperative netorks first and later on, upon tying the operational rules and standards they have to adhere to the stricter organisation and format set by the franchise contract and franchise manuals. This is not a smooth process amidst the transitional environment of a country like Slovenia. Although Slovenia has become a member of the EU, the process of further adjustment to the legal framework and macroeconomic conditions, which includes joining the EMU and adopting euro as its currency.

The dilemma that is becoming more apparent as the process of franchise development has not reached some important quality standards is whether the national association should insist on the self-regulative Code of Ethics as the sole criterion of regulation of franchising, or allow regulation by specific franchise legislation to avoid degradation of the entire franchise sector.

The paper includes the results of the national survey of the franchise industry of 2004 that show the following picture:

- Almost one half of the franchise systems that were present before 2000 do not operate under their original trade name any more;
- There has been a substantial growth in the number of franchise systems after the year 1999, while the turbulent environment continues to contribute to changes in their formats and ownership;
- ¾ of all franchise systems in Slovenia operate in the field of retailing;
- 80% of all surveyed franchise systems operate also company owned units that are similar to the franchise units;
- 31% of the Slovenian companies have their franchise units abroad, mainly in the countries of ex-Yugoslavia (non-EU area);
- 28% of the systems developed the manual(s) before they started franchising, 60% still have fragmented manuals in the process of development. The remaining 12% who call themselves franchise systems have not even started the development of their manual. In the worst position are home grown franchise systems;
- Increased competition, lack of understanding of the franchise philosophy, turbulent environment (transition time and recession) and lack of capital resources are considered the most serious problems by franchisors;

The restructuring of the Slovenian economy that will affect the future of the Slovenian franchising is still expected to continue amidst takeovers, conversion and / or deliberate structural changes. The active players in the field of support that will contribute to the growth of the support systems to both franchisors and franchisees would have to involve the national franchise association (with the support of the international franchise associations), government agencies, as well as private consulting services. National policy, which would include franchising as a tool for SME development and transfer of know how and transfer of technology, would also be of benefit to the development of quality franchising.

# Introduction

## a) Research on franchising in emerging markets

Stanworth and Hoy (2003) propose a widely accepted definition of franchising containing the key elements that could be applicable to the majority of franchise systems in the EU:

»*Franchising is a business form essentially consisting of an organisation (the franchisor) with a market-tested business package centred on a product or service, entering into a continuing contractual relationship with franchisees, typically self-financed and independently owner-managed small firms, operating under the franchisor's trade name to produce and / or market goods or services according to a format specified by the franchisor.*« (Curran and Stanworth, 1983)

The definition implies, but does not specify the contents of the contractual relationship in terms of the know how – its transfer from the franchisor to franchisee, as well as the amount of continuous services extended from franchisor to franchisee that have become the most critical subject of commercial relationship between franchisor and franchisee of a business format franchise system. This definition can be used for characterizing most of the self-defined franchise systems in Slovenia.

However, in surveying franchising especially in a transitional environment one could make a critical mistake by including in the sample without checking those companies that have been self-defined as franchise networks or by excluding some of those that do not proclaim their operations as franchise operations. An objective tool for checking the correspondence of a given franchise network structure and functioning with any definition is taking a close look into the franchise agreement and a couple of tests of its implementation in practice.

In December 2003 the European Franchise Federation adopted an important change in its definition of a term related to franchising. In its Code of Ethics for Franchising the European Franchise Federation (2003) slightly changed the definition of know-how as it relates to franchising. It emphasized know-how as an indispensable resource for the proper functioning of a franchisee[1]. The business format franchising denoted by this fresh emphasis remains the

---

[1] EFF definition of franchising, adopted by the EFF on the 5th December 2003:
Franchising is a system of marketing goods and / or services and / or technology, which is based upon a close and ongoing collaboration between legally and financially separate and independent undertakings, the Franchisor and its individual Franchisees, whereby the Franchisor grants its individual Franchisee the right, and imposes the obligation, to conduct a business in accordance with the Franchisor's concept.

The right entitles and compels the individual Franchisee, in exchange for a direct or indirect financial consideration, to use the Franchisor's trade name, and/or trade mark and /or service mark, *know-how*, business and technical methods, procedural system, and other industrial and /or intellectual property rights, supported by continuing provision of commercial and technical assistance, within the framework and for the term of a written franchise agreement, concluded between parties for this purpose.

"*Know-how*" means a body of non-patented practical information, resulting from experience and testing by the Franchisor, which is secret, substantial and identified;
-"secret" means that the know-how, as a body or in the precise configuration and assembly of its components, is not generally known or easily accessible; it is not limited in the narrow sense that each individual component of the know-how should be totally unknown or unobtainable outside the Franchisor's business;
-"substantial" means that the know-how includes information which is ***indispensable*** to the franchisee for the use, sale or resale of the contract goods or services, in particular for the presentation of goods for sale, the processing of goods in connection with the provision of services, methods of dealing with customers, and administration and financial management; the know-how must be useful for the Franchisee by being capable, at

only form of franchising promoted by the EFF. The consequences of such change, looking from the regulatory perspective, may contribute to the exclusion from the scope of regulation the very systems that should be subjected to the regulatory regime. In addition to the peculiar understanding of the franchisee related know-how the definition in the EFF Code contains also provisions regarding the marketing background of franchising, intellectual property rights and continuing provision of commercial and technical assistance.

The conditions for franchising in Europe may differ especially from those in the US (Bezemer, 2001) due to the smaller size of markets they serve as well as to multitude of cultural and legal differences. Self-defined franchise systems in EU that can be marked as »partnership« or »networking« may not fall into any of the above mentioned definitions of franchise systems. Cooperative networks or voluntary chains[2] might be better names for those networks where more horizontal than vertical integration is applied also with consequences to their legal status in terms of competitive position and block exemption regulation[3].

According to the textbook descriptions and definitions contractual vertical marketing systems include voluntary chains, retailer cooperatives and franchise organisations. These systems integrate their programmes at different levels of production and distribution on contractual basis in order to obtain more economies. The wholesalers sponsored voluntary chains of independent retailers are formed for better competition with large chain organisations. The wholesaler's programme standardizes their selling practices and enables bulk supplies for the entire chain. Similarly the retailer cooperatives are formed by retailers ("bottom up") to carry on wholesaling, part of production and marketing, which also contribute to the "value adding partnerships". (Kotler, P. 1998, p. 549-551)

Degree of determination / discretion of operations by individual chain members that include different degrees and areas of standardisation, as well as the extent of control by a wholesaler or a self-imposed principal vary in each of them. Although their operations may be similar, there are differences both from the organisational as well as from legal perspective. Franchises would thus be on the side of stricter control and greater standardisation that is demanded by the contractual arrangement as the other two types of network organisations. The level of autonomy would in many respects be lower in the franchise organisation, where the strict follower type of relationship is expected to provide better results on the market. The franchise type of organisation means also high confidence in the success of replication of business format as it has been shaped by franchisor through testing and widespread application. It automatically presupposes transfer of know-how of the franchisor, patterns of acting and managing that are embodied in the operational manual (s). It also means less learning from network partners and more following the prescribed performance. This is quite

---

the date of conclusion of the agreement, of improving the competitive position of the Franchisee, in particular by improving the Franchisee's performance or helping it to enter a new market;

-"identified" means that the know-how must be described in a sufficiently comprehensive manner so as to make it possible to verify that it fulfils the criteria of secrecy and substantiality ; the description of the know-how can either be set out in the franchise agreement or in a separate document or recorded in any other appropriate form."

[2] A sharp delineation of each of these forms of network organisations may be difficult to make in applying the definition to each specific case. Nevertheless, this fact should not prevent one to make an attempt to differentiate each of these phenomena from other similar forms.

[3] Examples related to vertical / horizontal restrictions: Commission Regulation encompassed in the BER on Vertical Restrictions - Communication of the commission, 2000/C291/01, JOCE 13/10/2000 and the Commission regulation n° 2658/2000 and its guidelines (Communication of the Commission and the European Court of Justice 2000/C3/02, JOCE 6 January 2001)

difficult to refine and finalize in the business environment that does not provide essential conditions for the functioning of a franchise system, including stable macroeconomic framework, low inflation rate, implementation of intellectual property rights and proper functioning of the legal system in general.

To briefly elaborate upon the current stage of franchising in Slovenia and introduce the framework for understanding findings of the research study in the next chapters we will introduce a scheme that could help to further consider these phenomena. One can assume that there are at least 3 stages of franchise development in the contemporary markets that could most clearly be seen in the transitional economies. They can be listed as follows:

a) Attraction of foreign franchise systems (with the spill over effects of know-how);
b) Development of indigenous franchise systems;
c) Export of domestic franchise systems to known markets;
d) Intertwining and overlapping of the above stages.

In the first stage the overseas franchise concepts arrive to a country or a country attracts overseas franchise concepts with a view to taking advantage of their knowledge and management skills. This process could be either spontaneous or it may take a deliberate policy towards SME / franchise development[4]. Franchising in this context may be considered an efficient tool for transfer of know-how, as the companies are forced to share their knowledge with a large number of people on an on-going basis. In the second stage franchise chains develop domestically, while in the third stage domestically developed franchise concepts are exported, bringing in a stream of foreign exchange as the royalties and fees roll in[5].

**b) Conditions affecting development of franchising in Slovenia**

Slovenia joined the EU on the 1st May 2004. Although it has become a member of the EU, the process of further adjustment to the legal framework and macroeconomic conditions, which includes joining the EMU and adopting euro as its currency. The Slovenian economy is still going through turbulent times that are a consequence of on-going economic and institutional restructuring including the on-going changes in ownership, readjustment of the financial sector as well as labour adjustments. Although the rate of growth in 2004 was about 4%[6], the world recession trends were reflected in the rate of growth and inflation rate[7]. Even before Slovenia joined the EU the consequences of market changes have been obvious, though foreign direct investments were not as large as the international financial institutions as well as the EU governance would expect. The privatisation process that took place was to a large extent implemented within companies (e.g. employee stock ownership schemes, management buy-outs). Slovenia has not adopted any specific law that would regulate franchising.[8]

---

[4] See also Kirby and Watson, 1999

[5] The article that presented discussion of I Pavlin with its author was published in the Supplement of the Financial Times that focused on global trends of development of franchising. (see Swan, 2002)

[6] The Statistical Office of the Republic of Slovenia reported that the rate of growht in the 3rd quater was 4,9 http://www.stat.si/novice_poglej.asp?ID=404 (information of 15th December 20049

[7] Bole V. reports that the consequences of oil prices fluctuations on inflationary expectations and on inflation were neutralized partly by the decrease of food prices and partly by fiscal policy. At the end of next year inflation is expected to reach the upper limit of the criteria for entry into EMU. (Bole, 2004)

[8] The transitional economies of the Central and Eastern Europe (CEE) may learn from the experience in the EU countries, where franchising was at their inital stages often misused or introduced with unethical motivation. This has led to its regulation by the some EU governments, which may also inspire those governemetns in the CEE region to introduce similar practice, especially in the case that the code of ethics would not provide sufficient instrument of (self)regulation.

After its independence the Slovenian economy has largely lost its markets in ex-Yugoslavia but has replaced them with an increased expansion to the EU markets. Nevertheless, the group of the South Eastern European countries have become a major international target of the Slovenian economy again, which is directly reflected also on the current expansion of franchising systems to all ex-Yugoslav states. With a few exceptions we have not noted any other plans of expanding Slovenian franchise systems to the countries of the "old" EU. At the same time one may observe the increasing export rate to the EU countries – which includes also several hi-tech companies, however, not by means of franchising. On the other side the new government constituted at the end of 2004 has paid increased attention to SMEs and to entrepreneurship development[9] that has been found a critical economic issue, starting with inadequate support systems, bureaucratised responses of the government and environmental attributes that do not stimulate creative business solutions in the small business sector. (Rebernik and others 2003)

In the previous chapter we introduced a framework for studying franchising as it evolves in the context of transitional economies. After taking a closer look into the information available in the recent survey in Slovenia, the first two stages (attraction of foreign franchise systems and the development of indigenous franchise systems) were more parallel than subsequent; with a little spillover effect of the transfer of foreign know towards domestic systems.

In Slovenia one witnesses the processes of the second and third stage of franchising development in the classification that has been mentioned in the previous chapter, where domestic companies expanded to the foreign markets. Neighbouring Italy, Austria, and next to them, Germany tend to be the main geographic provenance of the incoming international franchising.

Relatively small economies of scale are one of the major determinants of franchising in Slovenia. They may prevent start up of a domestic franchise system or arrival of an international franchise system. In the case of domestic systems under-capitalisation of the would-be franchisors and their push for survival occasionally overrules this determinant. A crippled network of a short life-span is born. In the case of international francise systems the economies of scale represent a barrier to the entry of quality franchise systems as they induce substantial cost of the localisation of the operation through testing, master franchising etc. In several cases this barrier has been overcome by foreign franchisors by simply applying the direct franchising entry.

The membership in the EU may have a positive impact to the increased extent of culture specific services at a later stage, after the cultural proximities will be created through the exposure of the receiving and the exporting sides.

[9] A strategic objective of the Ministry of economy has become also internationalisation of the Slovenian enterprises, especially of SMEs and their export orientation. See: http://www.mg-rs.si/razvoj_podjetniskega_sektorja/internacionalizacija/index.php (24th December 2004) A critical part of this programme will remain its operationalisation into specific projects and monitoring of their implementation. Franchising has not become a domain to be mentioned specifically in any of the Government documents related to SMEs.

Apart from the members of the Slovene franchise association, there will be only a few franchisors in Slovenia for whom the EFF definition can easily be applied, while the remaining majority still fulfils the criteria set in the above definition of Stanworth and Hoy.

In the last five years there have been several failures of domestic and foreign franchise systems in Slovenia. The reasons for their problems have been published in the daily press, nevertheless their problems have not been systematically analysed in business and economic studies. On the basis of the insights of the national franchise association the following observations that characterize Slovenian franchising can be made:

i. Domestic franchise systems lack franchise philosophy and are short-term oriented;
ii. Domestic franchise systems lack know-how to sustain the growth required within international competition to continue their operations;
iii. Though with limited resources the only institutions promoting franchising nation-wide have been the National Chamber of Industry and Trade and the National Franchise Association;
iv. No specific support has been extended to franchise systems from the development agencies and banks;
v. And as already mentioned no specific legislation has been adopted for the franchising business.

## 2. Common characteristics of the Slovenian franchising in 2004

This paper draws from the research on franchising in Slovenia that of 2004.[10]

On the basis of the information on the surveyed franchise systems[11] as well as by extracting the information on franchising from the relevant press releases of the Slovenian economic and business journals and daily press we estimate that there are slightly over 100[12] franchise systems that operate about 1150 franchise units in Slovenia.

Apart from a few rent a car and hotel businesses that were established in eighties other franchise companies were created after the year 1989. About ½ of the franchise systems were established (or arrived in Slovenia) between 1990 and 1999 and the remaining half in the year 2000 and later. The trends in the Slovenian franchising since the year 2000 (Pavlin, 1998; Pavlin 2001) could be presented as follows:

- **Growth and failures**: Almost one half of the franchise systems that were present before 2000 no longer operate under their original trade name. Some of them have simply been closed down entirely or partly or stopped franchising in Slovenia; others have been taken over by other franchise companies and become company owned units or remained franchises within the new multiple ownership company systems; some hotels have started to operate within different reservation or other brand chains, but no longer as franchise units. These issues are discussed in other chapters as well;

---

[10] Research survey carried out by International Centre for Promotion of Enterprises (ICPE) and the Slovenian Franchise Association in the beginning of 2004 and was concluded in May 2004. It was coordinated by I. Pavlin

[11] The total number of the franchise networks that took part in the research was 42. The figures presented in the paper are rounded, without decimals.

[12] Following the EFF definition of franchising the number can hardly be established in detail as long as one does not have a detailed insight into the contract and a rough look into the franchise manual(s) of each franchise system.

- **Changes in ownership and patterns of operations**: There has been a substantial growth in the number of franchise systems after the year 1999, while the turbulent environment continues to contribute to changes in their formats and ownership. Becoming a member of the EU, for Slovenia meant also arrival of more foreign franchise concepts;

- One of the sources of the new franchises has been **conversion of the former craftsman's units**[13] either directly or through voluntary chains into franchise units. Another cause has been dearth of capital within company owned chains that have converted their own units into franchises, or have grown in the remote areas, through the franchise concept. This conversion process could have started only recently as a part of privatisation process or post-privatisation restructuring. There was little chance to organise private networks before the change of the economic and political system. Thus one can say that Slovenia, like other transitional economies is a late comer in the area of franchising.[14]

**a) Quantitative parameters of the Slovenian franchising in 2004**

Some specific quantitative parameters of 2004 survey can be summarized as follows:

- **Multiple franchises**: As many as 68% of franchise systems allow franchisees to run more than one franchise unit. Most multiple franchisees manage between 3 and 19 franchise units;

- **Sectors of the franchise systems:** ¾ of all franchise systems in Slovenia operate in the field of retailing. With a few exceptions the franchise systems are established by producers or by wholesalers. The largest groups in terms of the number of systems are the following
    i. textile and footwear retailing – ¼
    ii. retailing in home construction and home furnishing, home appliances, electronic and ICT, book-shops, toys, souvenirs, cosmetic shops – ¼
    iii. automotives and personal services (barbers, laundry, fitness) – ¼
    iv. food / groceries and fast food almost equally share the remaining ¼ of the franchise systems;

- **Number of units**: By far the largest in terms of units are food retails systems; nevertheless one should remember that also the size of these units is comparably smaller to those in large urban settlements of the developed EU countries;

[13] By craftsmanship units we mean traditonal small trade workshops, such as those of traditional workshops of carpenters, plubmbers, various types of car repair (from classical mechanical type to modern mechatronic type), shoemakers, tailors, etc.

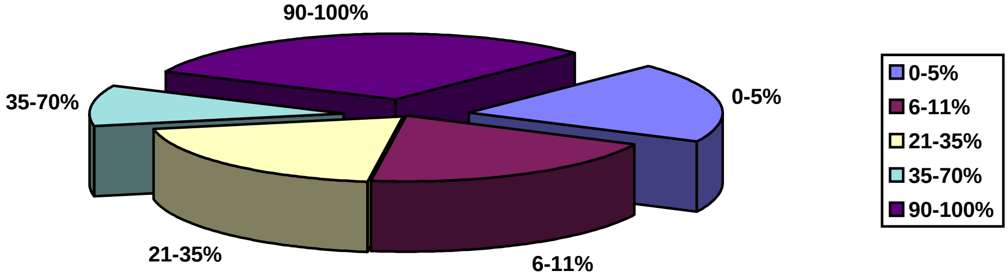
[14] As the transitional complex is not the subject of this paper as it was in my earlier papers, we can only point to the fact that the organic growth of network economies was impeded in the earlier system by its legislation, by various barriers related to import as well as by suppressed entrepreneurial culture. Process of privatisation of services and growth of new service sector companies is relatively slow, which also has also influenced slow development of franchise networks. As a result of the political and economic changes more than a decade ago as well as a result of joining the EU the import bariers disappeared and fierce competition gradually rolled in. Fast adjustments cannot take place so easily, therefore the sources of such change could be import of foreign franchise companies, cloning of foreign practices by domestic systems and franchise development and support systems.

- **Company owned units and franchises**: 80% of all surveyed franchise systems operate also company owned units that are similar to the franchise units;

- The total **number of employees** within the Slovenian franchise sector is about 6000 employees, 25% of them are employed on part-time subcontract basis. The three largest franchise systems employ between 350 and 600 people each and the next three largest between 200 and 349 people;

- The share of the **turnover of the franchise units** within the companies operating the respective franchise system is presented in the Chart 1

***Chart 1: The share of the turnover of the franchise units within the total company turnover***




- **Testing**: In 73% of the cases the company-owned units were used for testing purposes. Others run special pilot units, approximately ½ of them for more than 1 year. Several foreign franchise systems used direct entry of franchise units without proper testing;

- **Export of Slovenian franchises**: 31% of the Slovenian companies have their franchise units abroad, mainly in the countries of ex-Yugoslavia (non-EU area), which is understandable. Slovenia used to be the most developed part of ex-Yugoslavia;

- **Operational manuals**: 28% of the systems developed the manual(s) before they started franchising, 60% still have fragmented manuals in the process of development.[15] The remaining 12% who call themselves franchise systems have not even started the development of their manual. As already mentioned, the slow process of the development of the systematic and refined know-how embodied in operational manuals with domestic companies is partly conditioned by the late-comer effect (short time since the beginning of the market economy) coupled with the unfinished process of transition within a small size of the market;

- The **banks** have assisted in the development of only two franchise systems in Slovenia. They simply believed the local chain leaders that in the conversion of the units of the two respective voluntary chains into franchise networks, the units will have a better perspective as a set of individual craftsmen or members of the voluntary chains;

[15] These systems cannot become members of the National franchise association. The existence of the manual is a precondtion for their membership

- **The headquarters**: 45% of the franchise systems have its headquarters in the capital of Slovenia[16], while the second largest city of Slovenia hosts headquarters of only 5%, the rest are evenly spread in small towns throughout the country. The size of Slovenia as well as the relatively small size of the franchise systems could be considered as the key factors in this type of distribution of the headquarters.

- Only 22% of franchise systems used **consultants** in the development of their systems, others most often developed franchise formats on the basis of their own experience in the company owned shops;

**b) Franchise networks or networks with distribution contracts**

In the earlier discussion we have expressed doubts about the exact match of the organisational and operational characteristics of the majority of the franchise companies functioning in Slovenia with the strict criteria of the European Franchise Federation that would qualify them as proper franchise concepts.

The reason is that trade networks, which prevail in the Slovenian franchising do not necessarily use business format franchising. They subcontract distributors without tying their purchases exclusively to the supplies within their wholesaling-retailing systems. Their rather common and general know-how of retailing often could not easily be marked "indispensable to the franchisee for the use, sale or resale of the contract goods or services, in particular for the presentation of goods for sale, the processing of goods in connection with the provision of services, methods of dealing with customers, and administration and financial management" (see the earlier quoted EFF definition of franchising). Therefore one may call several business forms of cooperation franchising-like approaches.

A distributive type of franchising of such companies may represent a minor share of their entire sales, while they focus on company owned shopping centres. Domestic franchise systems appear often as subsystems within within wholesale-retail systems as complemetary supply chanel to company owned units (Pavlin 2001B)[17].

Large wholesale-retail systems, domestic following the foreign ones operate several different types of units such as

a) Company owned hypermarkets of internationally reputed brands in the size of thousands of square meters lease or rent out outlets, either independently and of more or less complementary retailers, restaurants, banks, etc.Their co-branding patterns are recognisable country-wide. The hypermarkets are never run as franchise units, as they are too complex and strategically positioned. They are most common in food / groceries; in textile, footwear or electronic we find are more often »flagship« stores – one or two in each country that represent a brand in its full meaning which may also be part of larger shopping malls. Even these stores could be franchised. They may represent the leading parts of networks of smaller franchised units;
b) Supermarkets, that can be either company owned or franchised – most often near residential areas or bussy crossroads in the developed parts of the EU, do not appear as franchise units in Slovenia;

[16] The capital is also the largest though its population is bellow 300.000 inhabitants.
[17] The logic of the wholesale-retail systems in the EU seems common to some extent, although the applications can be specific for each chain.

c) Networks of different types of smaller convenience stores either within city areas or within residential areas can be run either as company owned stores or as franchise units. Strategic criteria for plural ownership forms vary from one company to another.[18] A general tendency may be that the locations that are franchised are those, which are less attractive for the franchisor, with lesser sales potential to be run as company owned shops. They maybe franchised even to other trade chains which operate them as company owned shops;

d) Due to specific type of dispersed settlement of population as well as their lower purchasing power the later category (smaller convenience stores) is generally also comparatively smaller in its size as similar (e.g. food) franchise units in the old Europe. This implies that each unit requires a detailed business plan, where the survival potential is clearly established. At the same time a rigid operational manual cannot prevent specific local adjustments which may be different from proper business format franchising.

## 3. The results of the Survey of Slovenian franchising in 2004

One can compare these answers we obtained in this research with those analysed 7 years ago (Pavlin, 1998) In such comparison one comes to conclusions that may not be overrated as the macro-economic and even cultural conditions have changed profoundly. We even have a substantially different sample of franchisees. Therefore a longitudinal comparison may serve only as a brief reflection of changes, without deep inferences on the causality of the phenomena. We will try to reflect upon changes in the subsequent chapters.

### a) Problems facing the Slovenian franchise systems in 2004

After 1997 the situation of perceived problems has substantially changed. First, we will look at the situation in 2004 and later on we will make some comments on the comparison with the year 1997[19]. (See Chart 2)

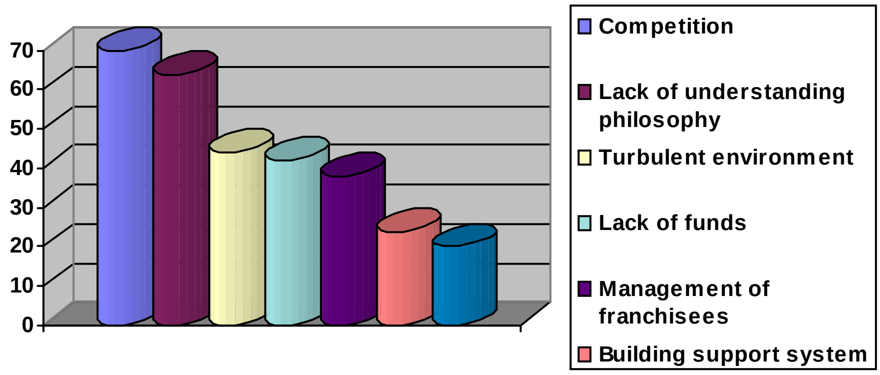
The most important problem that has been mentioned by franchisors in Slovenia is fierce ***competition** (1)**,*** among domestic, as well as among domestic and foreign systems and last among each other, irrespectively of their origin. There are a growing number of trade systems within a relatively small market. The new foreign systems still arrive to either to outperform the existing trade systems or to take them over. At the same time there are a few larger domestic trade systems that take over the smaller domestic networks. The process has been well described by Bezemer for the Dutch as well as international environment in general.

[18] As shown by Ehrman and Spranger (2003) hybrid organisational forms cannot be explained under a pure principal-agent-view. They argue that organized franchisors may benefit from effects of cost reduction, quality enhancement, growth stimulation and optimised risk control in contrast to pure franchise chains. As a matter of fact, in Slovenia, franchise chains often form only a minor part of the entire wholesale-retail system. Large wholesale-retail systems also become franchisees of smaller franchise chains, or even implement cross-company franchising, where most often do not conclude further franchising agreements but use units of their own chain. See also Forward and Fulop, 1992 and 1996.

[19] *We used pondered ranking of answers. Three options were asked to be ranked in the rank order 1 to 3. In the chart rank 1 was pondered by three, 2 by two, and 3 by one. Numbers in the brackets mean ranks.*

Competition is a very common characteristic in the established franchise markets, which is not the same in the economies which introduced market economies in nineties, where it has been there since long time ago.

***Chart 2: Problems of Slovenian franchise systems***




According to Bezemer (2001) chain building continues to be a key issue as a growing number of companies are already or will become a part of one or more chains, unwillingly or voluntarily. Earlier independent units are increasingly becoming parts of voluntary chains or franchise networks also in Slovenia (Pavlin, 2003)

There is still ***lack of understanding of the philosophy of franchising*** *(2)*. Those in charge of franchising, especially if they a) are not close to the top managerial positions and b) if they have a profound understanding of franchising complained about the fact that superiors do not understand their requirements related to the management of the franchise operations. One may assume that the top management of companies, especially those with plural ownership form, does often not understand franchising.

Lack of support to franchising businesses indicates that franchising is not properly understood by the society at large, most critically by the financial sector – banks, by the state, and of course by would-be franchisees. They all need to realise proper concepts, potentials, misgivings and realities of the contemporary franchising in the context of the networking economy.

We analysed ***the turbulent environment*** (*3*) at the very outset of this paper. It means all from the supportive macroeconomic environment, shifts in economic policies, exchange rates and inflation, absence of the governmental and independent agencies that may help franchising, lack of enforcing pursuit of the national economic priorities and other important factors.

***Lack of capital*** *(4)*: We have already mentioned that companies of pre-deregulated times try to persist by mobilising the scarce financial resources of private citizens and even more of entrepreneurs who would in the long run find themselves in hopeless situation. They cannot be simply erased from the economic life, as there is a threat of hundreds of unemployed that cannot be re-employed and adjusted to new conditions over night.

In our view ***the recruitment and management of franchisee*** *(7&5)* combined with ***inadequate support systems*** *(or their absence – 6)* represent a set of critical issues that are largely underestimated by the responding franchisors in this research. They are the consequence of the earlier mentioned factors in the pyramid of problems. One cannot neglect a progress in the provision of assistance to franchisees in comparison to earlier development stages; nevertheless, there are only a handful of the franchise systems whose support mechanisms can be assessed as satisfactory. Less experienced franchise companies cannot avoid targeting inadequate candidates, as they are not aware what type of franchisees would comply with the needs of their franchise systems.

Lack of know-how, both from the technical and technological perspective as well as from the business management perspective is definitely a critical deficiency of domestic systems and is even compounded with the type of recruitment of inexperienced would be franchisees. One could say that matching of poorly qualified franchisors with poorly qualified franchisees is too often the case.

As already mentioned the situation has changed since 1997[20]. The first difference we can notice is the categories of "competition" and "turbulent environment" that have peaked to the top, while "lack of understanding of the philosophy of franchising" has remained almost at the top. Due to the changes in the franchising practice (more foreign systems, several exits, take-overs within the group of the existing domestic chains etc.) these developments cannot be marked as longitudinal progress, but shifts in the context of ownership transformation and economic restructuring in the process of joining the EU.

**b) Why do companies in Slovenia get involved in franchising?**

The most common reasons to get involved in franchising for a Slovenian company were listed as follows[21]:

1. Expected growth of the distribution network (1);
2. Penetration to new markets (2);
3. Presentation power of the brand (1);
4. Knowing local market by a franchisee (4);
5. The use of the franchisee's capital (3);
6. The reduction of the cost of administration (primarily small franchise systems)(5);
7. Replacing the poor local supply of lower quality with a better one (7);
8. Motivation of franchisees (6).

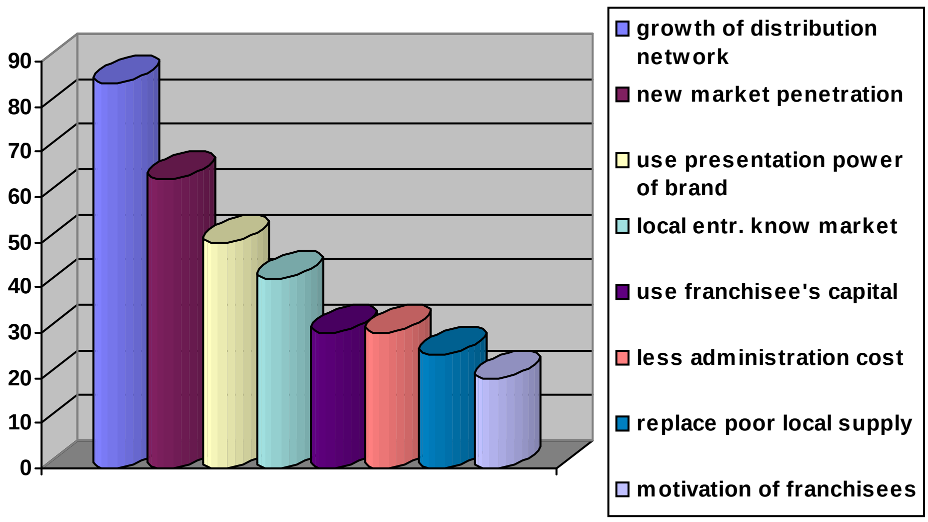
[20] **Problems of the franchise systems in 1997 and in 2004** (The rank of each category of problems in 2004 is quoted in the brackets.)

1. lack of understanding the philosophy of franchising (2)
2. recruitment of franchisees (7)
3. development of support system to franchises (6)
4. management of franchisees (4)
5. lack of financial resources, including those by franchisees (4)
6. turbulent market environment (3)
7. competition (1)

In both cases, in 1997 as well as in 2004, we used pondered ranking of answers. (Three options were asked to be ranked in the rank order 1 to 3. In the chart rank 1 was pondered by three, 2 by two, and 3 by one.)

[21] The rank of each category of reasons in 1997 is quoted in the brackets. The categories 1 and 3 at that time formed one single category, therefore we find (1) at both of them.

*Chart 3: The reasons why companies in Slovenia get involved in franchising*




If we compare the year 1997 and the year 2004 there are no large differences. As the fight for the competitive advantage has become the critical drive of company's behaviour, the competition for a better market share, irrespectively of franchising alone seems to have become a prevailing drive for using franchising as an additional tool for expansion. Knowing the local market is still not the very top condition for choosing franchising as a preferred business approach. The motivation of franchisees seems to have remained among the least important reasons. There is hardly any difference between homegrown and imported networks as far as these criteria are concerned. This finding does not strictly follow the widely accepted justifications of the advantages of franchising for replacing hired managers by highly motivated franchisees that know the local market. The use of franchisee's capital seems to have received slightly less important position. It has not become clearly understood by many franchised companies that using franchising by an under-capitalised franchisor's company the national franchise associations do not consider an ethical act, similarly as it is not using franchising formula without proper pilot operation.

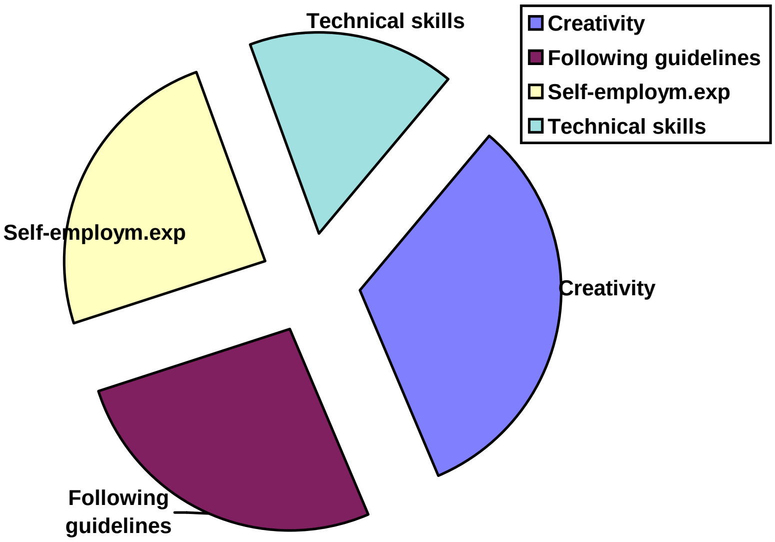
**c) The attributes franchisors demand from franchisees**

Franchisors expect from franchisees the following attributes[22]

1. Creativity and ability to cope with the variety of situations (2)
2. Following the guidelines of the franchisor (1)
3. Self-employment experience (3)
4. Technical skills (4)

[22] Figures in bracket present the ranking of the same attributes in Slovenia in 1997

***Chart 4: The attributes expected from franchisees***




As one can see from Chart 4, the most preferred attribute a franchisee should have is "Creativity and ability to cope with various situations". This is a rather different situation, as one would expect to prevail within a standardised business format operation. However, it reflects the reality of a relatively slim body of know-how most franchise system possess. It also points to the short-term flexibility required from franchisees within a highly competitive and turbulent environment, which is rather unfriendly to the development and growth of franchising[23]. In our analogue research in 1997 it was "Following the guidelines of franchisors" that was at the very top of preferred attributes prospective franchisees should have. "Self-employment experience" followed by "technical skills" has not changed its position since. They have remained relatively important also in 2004.

## d) Support to franchisees

Support to franchisees is organised through programmes of management services. In a study of franchise systems in the UK[24] the owner-entrepreneur franchisors of most of the surveyed systems were proud of their specific know-how and their capability to transfer their know-how to franchisees. In the Slovenian case the codification of the know-how represented in the franchise manual(s) exists in a fraction of systems. In this case it is even more important for franchisors to maintain and continuously justify their role of the owner-leaders within the system. In retailing it is most often the attraction of cheaper bulk purchases, which may replace in part the absence of valuable know-how.

[23] Creativity at the bottom obviously is an immanent problem that confronts franchise systems in general (Stanworth and others, 1996), although in this case the "expected" level of creativity is missing at the level of the franchisor's development services.

[24] Pavlin, Igor. 1996. Views on British Franchising: Lessons to be learned in Central European countries. *Report* to ACE / PHARE.

The extent of support may vary[25], the trends that have been noted in the research report are in the direction of providing more support, which has a pay off in the justification of the amount of the management service fee (Chart 5).

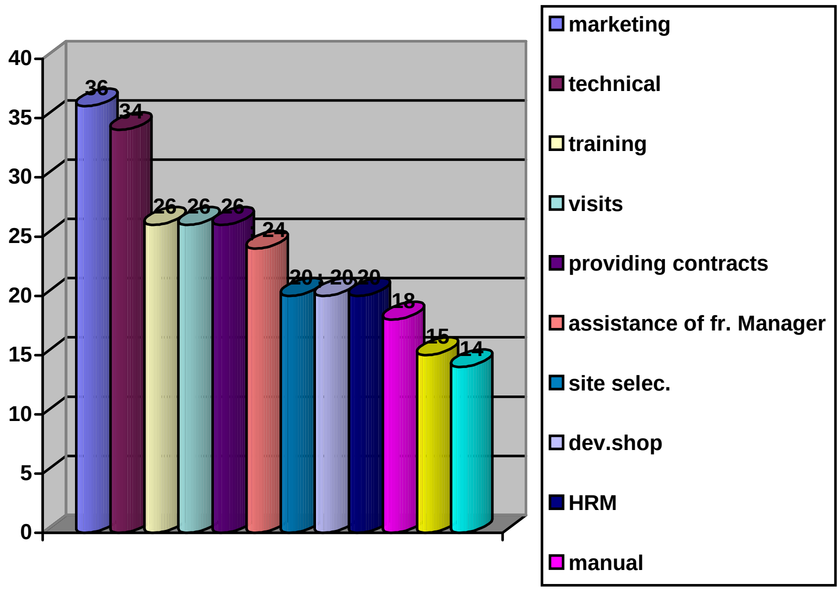
The most common forms of supporting franchisees are shown in the Chart 5 and in the list bellow the chart based on frequencies of responses.

It is interesting that in our survey in 1997 we found only a few changes in the hierarchy of individual categories in terms of frequencies of individual categories of support. They can be ranked in the same order as shown in the Chart 5, namely:

1. marketing/advertising(1)[26],
2. technical assistance(2),
3. training of franchisee/his employees(3),
4. visits of franchisor or his representative when needed(4),
5. providing contracts(14),
6. assistance of the franchise manager(11),
7. site selection(7),
8. shop development(8),
9. HRM assistance (12),
10. know-how entailed in the manual (9),
11. provision of the equipment and vehicles(13),
12. legal support, providing legal advice (10).

Providing contracts (services to customers and the assistance of the franchise manager have substantially improved their position.

***Chart 5 Forms of support to franchisees***




[25] Pavlin, Igor. 1996. "Franchising, a Fast-track Induction to Entrepreneurial Survival and Growth in Transitional Economies". *EFMD European Small Business Seminar*: Developing Core Competencies in Small Business for the 21st Century, Vaasa, Finland
[26] Figures in the brackets mean the rank position in our server of 1997

**e) Domestic versus foreign systems**

Domestic systems in Slovenia grow through direct franchising, without sub-franchising; however there is widespread practice of one franchisee operating several units, especially in the cases when a large trade company becomes a franchisee of a franchise system as a means of diversification. When the Slovenian companies go abroad they either establish their own company abroad to manage franchising or they do direct franchising.

Franchise systems that become international mainly go to territories of ex-Yugoslavia[27], where they believe they know the local environment. It can be seen from our research that they are mainly distribution concepts with no substantial franchise related know-how that may not be as dependent on the full protection of the intellectual property rights as service related businesses. In their understanding the conditions for any type of franchising are supposedly less severe as those in Western Europe. However, the early stages of transition of the SE European countries may not provide a safe landing for some of these companies also in the longer run. Besides they are faced with relatively strong competition from the other EU countries and Turkey.

As already mentioned the neighbouring Austria and Italy as well as Germany (and to some extent Hungary as a transitory venue) have provided the bulk of foreign franchise systems in Slovenia. Other countries to be mentioned are France, United Kingdom and USA:

Foreign companies enter Slovenia mainly through direct franchises. Reasons for this could be multi-fold:

- Relatively small turnover at the small Slovenian market with an acceptable risk of deteriorated company reputation due to potential failure that can be justified by a transitional market turbulence;
- Seemingly large extent of cultural proximity for companies from Austria, Germany or some Mediterranean countries has been enforced by the Slovenian entry into the EU;

Direct entry by necessity meant also “a direct testing” of the local market through franchising. The franchise units could have later been reconverted into the company owned operations, depending on the rate of return / profitability and other strategic considerations.

However, there is a substantial difference of entry of a company like McDonald’s or some other reputable company. While McDonald’s started franchising after sorting out company owned headquarters and first company owned units that were later converted into franchises, other companies chose a reverse approach: they tested the market first through direct franchise units, without a proper testing period as proposed by the European Franchise Federation[28], by attracting investment of franchisees and later on deciding upon further investment into company owned units or further growth through franchise concept.

In the case of McDonald’s the franchisor takes the adjustment cost and risks of failure in the case of direct franchises the risk of failure is primarily on the shoulders of the franchisee

---

[27] The current export of Slovenian franchise systems is in mainly to the SE European countries (outside of the EU - ex-Yugoslavia, Rumania) but less to CEE (Hungary, Slovakia and Austria).

[28] *Code of Ethics*

himself or investment franchising by another legal person[29]. Those companies that met part of the investment cost with a domestic have applied a mixed approach or another foreign investor into setting up the joint venture for launching franchise units in Slovenia.

## 4. Prospects of the Slovenian franchising

### a) Take-overs and closures of the Slovenian franchise systems

In short the reasons for »disappearing« of the Slovenian franchise brands from the list of franchise systems has been caused by diffferent factors that may require further research. In the following paragraphs we shall list those that have been most frequently mentioned both in our research as well as in further interviews with the heads of franchise systems of the Slovenian franchise association during the conference on franchising that took place in Ljubljana in 2004.[30]

- As already mentioned changes in the Slovenian economy even before becoming the full-fleshed members of the EU have resulted in multifold structural adjustments, which included closures of non-viable chains faced with increased competition of domestic and foreign chains and franchise systems.
- Among most common reasons have been those that were a consequence of failing to meet the requirements of the economies of scale that could have persisted only within a relatively weak competition framework. The victims were primarily small retail systems in different branches (food stores, home appliances, electronic products) but also foreign fast food chains. This has resulted either in take overs by larger domestic companies or in closing of franchise operations.
- Takeovers by large companies can also be attributed to the process that was described by Bezemer as already mentioned and is still not finished. In this process the idependent shop keepers are ruled out of the market if they are not attractive for inclusion either into voluntary chains that are progressively tranfored into franchise chains or if they are not directly included into the existing retail franchise chains.[31]
- In the process of adjustment of the wholesale-retial chains into the contemporary trade systems apply various patterns of company profiles and sizes of hyper-markets, super-markest, residential and high market convenience stores that include also plural ownership forms (Erhman and Spranger, 2003)). In this case the left-over stores that cannot fit into the new concepts of the networks are left to gradual exclusion from the market[32].

---

[29] Information on McDonald’s operation has been collected on different occasions of joint workshops with the former Manager of McDonald’s Slovenia and Croatia in the last 8 years.

[30] Conference on Franchising after Slovenia joins the EU organised by the Slovenian Franchise Association, Chamber of Industry and Commerce and International Center for Promotion of Enterprises in cooperation with the European Franchise Federation and Dutch Franchise Association. It took place in Ljubljana on 7th April, 2004.

[31] Bezemer (2001) reported that in 1999 in the Dutch retailing 85% of stores were either company owned by a large corporation or belong to a voluntary chain or franchise. Approximately half of them were company owned. Independent shopkeepers owned only 15% of units. The share of independent shopkeepers continued to decrease. Units included into the voluntary chains, which would cooperate simply for the reason of purchasing goods under better conditions is gradually being replaced by either franchising as more defined business format of cooperation under common identity, with the remaining part of company owned and managed units. As already mentioned, the same process can be noticed in Slovenia.

[32] During the mission of the Slovenian managers from the local trade system Mercator  to Carefour and Delhaize it was noticed that the process of refinement of their companies hardly leaves any space for supplies to independent shops that are not included into their systems.

- In their process of adjustment some domestic chains still consider franchise units as »external«, i.e. as external competition to the company owned units of the systems and do not pay proper attention to adjusting the prices to the franchisees as their »preferred« buyers. It happens that retail prices of items within their hyper-markets are not substantially different from the wholesale prices to the franchisees. The paradox of the opportunistic behaviour of such wholesale-retail systems in the absence of internalized ethical norms seem to be unavoidable in the emerging markets. Expectations that perception of the win-win payoffs would prevail may not be met until the turbulence of global competition is not met with implementable legal restraints.[33]
- As shown earlier in this paper, the banks in Slovenia have not yet developed a specialised body of knowledge related to franchising and therefore do not contribute to the improvement of local franchising practice.
- In the decade the government has not paid special attention to franchising as a route to economic development in general or as a route to SME development.
- The domestic franchise systems that currently appear on the market are more concerned with the economies of scale in purchasing and sales as they are concerned with the competitive edge of their know-how. Lack of awareness of the importance of the devleloping »unique selling propositions« that would give them advantage on the market can be found also from the situation related to the existence of their unique franchise manuals. This fact is even more critical in the view of the emphasis of the EFF as mentioned earlier in this paper. The emphasis that systems put on »creativity« and on »previous business experience«, as seen from the research can make this picture even clearer.
- Foreign franchisors that enter the Slovenian market often choose the direct entry without proper testing period even at the expense of failure. They may not do proper research of legal traps, such as un-resolved ownership issues of the real estate (the process of privatisation has not been finished as yet). Eventually they may conclude with corporatisation of their franchise operations or stop operations.
- In the future more takeovers of smaller domestic franchise chains by larger domestic chanis are expected. Takeovers of larger domestic chains by giant foreign companies that have not happened as yet may take place. At the same time new entries of other foreign chains has been announced and has already started.
- Foreign franchises in the area of services (beauty parlours, hairdressers, health, education, real estate) may require more adjustments to the specific market conditions, therefore more direct franchise entries may not be the proper answer. We have noticed departures of famous franchise networks in the area of fast food, beauty, hotel chains that have not been able to cope with the small size of the market and were at the same time confronted with cost of proper adjustments to the local markets.

**b) Transformation of domestic craftsmen into voluntary chains and franchise networks**

Slovenian crafts workshops and services in different sectors, such as car services, wood-processing, mechanical repairs in homes and offices, transport, hairdressers, financial services, computer services, coffee supply, legal services, rentals of videotapes and DVDs, florists, commercial cleaning, fitness, etc., that have been established as independent

[33] Williamson's (1986) hopes for self-regulatory drives of economic subjects may not be fulfilled in the transitional context of emerging markets.

businesses have started to form networks that resemble either to voluntary chains or to cooperatives. They both may at a later stage start transformation into franchise systems.

The reasons behind the transformation seem obvious and have been tested also in other European countries. The growth and development of the network economies of the Central European countries has been retarded as the centrally governed political systems had not provided space for privately owned companies on one side and proper protection of the intellectual property rights on the other. It seems quite impossible that the gap could be entirely filled in by cross-border franchising in the same manner as domestic entrepreneurship development for small business development could be simply replaced by imported small businesses in a laissez-faire manner[34].

Slovenia is not an exception in this process of transformation. Currently it is confronted with two alternative parallel development flows, namely

a) with the import of foreign service companies that would most probably not get involved into conversion of independent private businesses into chains or
b) with the gradual integration of such independent services into chains by some more advanced domestic companies in the same field.

The alternative b) has started to happen in almost all earlier mentioned areas, without any appropriate support that would be offered either by a private or government agency. Without such integration most of the independent providers of services, usually run, as family businesses would gradually be forced to close down. This has been aggravated by the fact that at the same times many large scale wood-processing, textile, footwear and some other companies with similar supply are closing down as a part of industrial restructuring process and due to global changes (entry of China to the EU markets at favourable conditions, etc.).

Unfortunately the franchise systems with their provision of unique technical and administrative know-how may not be the best direct alternative to the alternative b). On the other hand voluntary chains and cooperatives[35] that combine supply of products and services or just one of the two can facilitate the following

- better coping with turbulent transitional environment, including bureaucratised authorities;
- better purchasing economies of scale for input components of their final products and services and assist with wholesaling of additional supply of products;
- improvement in the organisation of the business processes;
- better negotiating position versus large suppliers of goods and business to business services;
- better negotiating position versus risk capital, financial services and banks;
- transition from the earlier clientele with diversified and tailor made needs to customers with “package needs” and standardised response of supply;

[34] As far as the supremacy of occurrence of the voluntary chains over the franchise operations is concerned one could quote two major conditions. First, it is gradualism in the development of domestic franchise systems, required by the evolution process of domestic know-how, second it is just another facet of the first - the higher level of rigor and the amount of know how required for competent leadership in the franchise systems. The later one requires longer period of time to evolve into powerful concept. Nevertheless, this is primarily true for the domestic franchise systems.

[35] Especially in the retail business introduction of voluntary chains and cooperatives has played a very important role. Well documented cases of Econ-Minimart, Singapore, a voluntary self-help scheme and NTUC Fairprice franchise (Chong, Li-Choy, 1994)

- targeted response to the consumer/customer demand in terms of price and quality, within the contemporary structure of distribution of goods and services;
- replacing simple act of selling production driven products or services by providing long term service of standard quality products and services to the consumer (lines of credit, leasing, servicing, guarantees, combined services etc.);
- transparent and modest prices for quality products;
- better response to the changed habits and changed needs for convenience consumer (employed women, elderly at home, pre-school children development, entertainment etc.) in terms of time, place and manner of delivery;
- recognition of the brand in the broader environment;
- better access to information and different data bases;
- easier coping with the increasingly requiring technological standards;
- modernisation in terms of adjustments of handling the orders, keeping and shortening the delivery times, fulfilling the expectations of customers[36];
- targeted recruitment of specific human resources and their focussed training;
- survival within the competitive EU and global markets

Voluntary chains and cooperatives that may provide horizontal integration at the first stage may also be converted into vertical marketing channels latter on.[37] The conversion process entails not only technological but also administrative innovations. The stage of the transition from crafts type of individualised business operation to the integrated type of business operation requires at the same time:

- introduction of recruitment and diagnosing the subcontractors' companies to become contracting partners in the process of gradual evolving into franchisees;
- management of new members as franchisees as a management of sui generis;
- changed - friendly but standardised customer service procedures;
- strong reliance on modern ITC technology in handling the orders /delivery as well in repair process;
- marketing of »package services«;
- using marketing as a tool for informing customers of new type of supply, thus creating standardised demand in terms of expectations of the kind, type and quality of services at any service unit, an independent franchise, within the network;
- standard list re supply of products, with a defined share of sales (e.g. 20%), a defined choice of goods that could be purchased from non-defined supplier or franchisor. (Pavlin, 2003)

For a further transformation of a voluntary chain or cooperative into a franchise network a there may come to a gradual enhancement of the respective institutional structure. One of the changes that have to take place is that the business format of units will have to soften the borders between firms. This would not bring the entrepreneurs close to the employee-ship status in spite of increased policing of quality in terms of the theory of the firm (Rubin, 1978: 50-55). This process would require preparing strict operational manuals and various forms and areas of training, with progressive development of the franchise support services. Those

[36] However, the consumer benefits remain relevant (see Freyburger and Cutter, 2000) Is it in the consumer choice in terms of the variety of products and services offered or in the consumer satisfaction in terms of tailor made response to a wide spectrum of less demanding needs in terms of short time of delivery, convenience, standard reliability of products and services, value for money, etc. (Curran and Stanworth, 1983, Rubin, 2003)

[37] Beside the Case of Econ-Minimart in Singapore, we find similar cases in EU, in Slovenia one could mention Bartog fast automotive services (BHS), Slovenia (Marinsek, 2002), etc.

would together with mechanisms of monitoring of performance lead to the strengthening and homogenisation of the standards of services throughout the system

In the conversion process one may well realise that each individual entrepreneur will have to be brought to similar operating efficiencies, adopt a renewed life-cycle stage, as well as improve the fit between his and other units as well as to harmonise its future transformation with the strategic guidelines of the lead partner in the chain – evolving franchisor. This unique development strategy implies also streamlining of the innovation process within the network.

So far benefiting from joint development and marketing synergies has been one of the key reasons for those that have decided to join the chain within the ever-increasing competition. Innovativeness expected by franchisees can be well built into the common technical base of services.

Centralised commanding that could be opposed by a segment of franchisees may jeopardise the existence of the entire transitional system. A participative style in strategic decision-making seems to be of great importance. The increased use modern ICT together with acquiring fast feedback mechanisms can serve in further enhancing of the system. Allowing different fields and levels of individualisation at this stage will gradually lead to more and more standardised supply of goods and services.

The administrative innovation of the system means creating a unique structure of the franchisor – franchisee relationship.

The extent of tying individual units into a unique network with a common identity under the same trade name will be a gradual but all-encompassing process. The name of the process that we can witness in this case is reducing the levels of complexity to more manageable proportions[38]. We are speaking about simplification of different arrangements with different suppliers or subcontractors at higher prices and longer times of delivery, time-consuming re-negotiation of short term trading agreements etc. These simplifications result in higher standards of quality, shorter delivery times at lower prices.

A necessary step will be conversion that will be based on the proper franchise agreement. Changes that will be unavoidable in this process in relation to franchisees, especially those that will require abolishing specific aspects of the present autonomy of member entrepreneurs may be painful but essential. The case of Coca-cola re-engineering as shown by Felstead can be instructive for the agents of change in the voluntary chains of BHS (Felstead, 1993 A and B). The similarity is mainly in the resistance to the reduced level of managerial autonomy that might be the only solution for the survival of the chain.

## Conclusion

The markets for franchise businesses in the EU differ from those in the USA in spite of gradual unification of the macroeconomic and institutional frameworks within the EU. Diversity of cultures, languages, habits related to food, clothes and footwear, travel and work and leisure, not mentioning legal, political practices have held back a larger extent of the cross-border franchising within the EU. Adjustments of individual franchise systems that cross borders to all these and other specifics may still require high localisation cost. Smaller

[38] Stanworth (1996) refers to the complexity that can be seen as a catalyst for innovations designed to reduce levels to more manageable proportions.

franchise systems may not afford crossing borders if they do not reach critical mass of units at home. Moreover, most large networks that operate besides the franchise units also corporate shops may not choose for their expansion only franchising route but on the contrary they may enter with their corporate units and then spread with franchises or both, franchise and company owned shops. Multiple forms of ownership have become common features in the EU, including Slovenia.

Franchising development in the transitional economies within EU may require special attention in terms of the elements for setting up national franchise development strategies as a part of SME development, transfer and development of technology, international trade development etc. As late comers in the franchising industry they may require development of special franchise development support systems. Time lag in the development of their franchising may not be bridged only by the import of international franchise systems, but also by developing home grown franchise systems. There are market niches that can best be filled by home grown systems, which could take shortcuts only by supporting them in their endeavours. Thus the role of the national franchise association is not simply advertising their member companies and caring for their well-being but creating conditions for the development of a healthy franchise industry that includes both international as well as international franchise concepts. Learning from international systems and at the same time competing with them may take some time. Another issue is learning from countries with similar characteristics such as the size of the economy and other economic and cultural specifics, the type of settlements which affect development of franchising. All these may be critically important for the future of the Slovenian franchising.

The restructuring of the Slovenian economy that will affect the future of the Slovenian franchising is still expected to continue amidst takeovers, conversion and / or deliberate structural changes. The active players in the field of support that will contribute to the growth of the support systems to both franchisors and franchisees would have to involve the national franchise association (with the support of the international franchise associations), government agencies, as well as private consulting services. National policy, which would include franchising as a tool for SME development, the transfer of know how and transfer of technology, would also be of benefit to the development of quality franchising.

**References**


- Bezemer, Jan. 2001.Developments in franchising present new challenges. Presented at the 15th Annual Conference of the International Society of Franchising. Las Vegas, Nevada.
- Bole, Velimir. 2004. “Economic Achievements in 2004,”*Gospodarska Gibanja*, Ljubljana November, 2004
- Chong, Li-Choy. 1994. »Franchising as an Instrument for Business Transformation: The Singaporean Experience«, *Public Enterprises*, ICPE, Ljubljana, Slovenia, 14 (1-2) pp. 115-119
- Commission of the EU. 2003. Commission communication. Model declaration on the information relating to the qualification of an enterprise as an SME. Brussels, 20.05.03
- Curran, J. and Stanworth, J. 1983. »Franchising in the modern economy / towards a theoretical understanding,« *International Small Business Journal*, 2 (1): 8-6
- Ehrmann, Thomas. 2003. »Contract design and range of services in franchising. An empirical contribution to the matching of franchisors and franchisees«. Institute for Entrepreneurship and Business Development, Westfälische Wilhelms-Universität

Munster. Paper presented at the EMNet-Conference on "Economics and Management of Franchising Networks" Vienna, Austria, June 26 – 28, 2003

- Ehrmann, Thomas & Spranger, Georg »Successful Franchising Using the Plural Form”. Institute for Entrepreneurship and Business Development, Westfälische Wilhelms-Universität Munster. Paper presented at the EMNet-Conference on "Economics and Management of Franchising Networks« Vienna, Austria, June 26 – 28, 2003
- European Franchise Federation. 2003. The European Code of Ethics for franchising. http://www.eff-franchise.com. 22/12/2004
- Felstead, A. 1993A. The Corporate Paradox: Power and Control in the Business Franchise. *Routledge*. London, New York.
- Felstead, A (1993B) “Beyond the boundary: exercising control without ownership - the case of Coca-Cola in Germany”, paper presented to the *Department of Business Studies*, University of Edinburgh, March.
- Forward J. & Fulop C. 1992. Large Firms and Franchising. The NatWest Centre for Franchising Research, City University, London, Business School
- Forward, J. and Fulop, C. 1996.”Large established firms' entry into franchising: an exploratory investigation of strategic and operational issues”. *The International Review of Retail, Distribution and Consumer Research*, Vol.6 No1, pp.34-52
- Freyburger, R., Cutter Philippe. 2000. »Is the know-how transmission from franchisor real and assessable? An empirical survey in the French car maintenance sector. « *14th Annual International Society of Franchising Conference*, San Diego, California
- Hoy, F. and Stanworth, J. (2003) »Franchising: a conceptual overview« in Hoy, F. and Stanworth, J. Ed. *Franchising: an international perspective. Routledge,* London
- Jeanmart, P. 2000. “Development of SMEs and franchising in accessing countries to EU”. Report of the President of the EFF. *Fransizing.* Newsletter of the Slovenian Franchise Association No.2
- Kirby, D., Watson, A.1999. “Franchising as a small business development strategy: a qualitative study of operational and "failed" franchisors in the UK” *Journal of Small Business and Enterprise Development* 6 **(**4)**:** 341 -349
- Kotler, P., Marketing Management. Analysis, Planning, Implementation, and Control, Ninth edition. *Prentice-Hall of India Private Limited*, New Delhi – 110 001
- Marinsek, I. 2002. »BHS Slovenian car repair chain. « Presentation at the *Annual Conference on Franchising at the Slovenian Chamber of Commerce and Industry*, Ljubljana. (May 2002)
- Pavlin, I. 1996. "Franchising, a fast-track induction in to entrepreneurial survival and growth in transitional economies". 1996. EFMD European Small Business Seminar: Developing Core Competencies in Small Business for the 21st Century, Vaasa, Finland, September
- Pavlin, I. 1998. “Franchising in Slovenia: Support to the development of franchise systems in Central Europe”, *Proceedings of the 12$^{th}$ annual Society of Franchising Conference,* Las Vegas, Nevada, 1998.
- Pavlin, I.2001A. “Franchising in Central Europe: Case of Slovenia.” Welsh., D., Ilon (ed.), *Franchising in Emerging Countries, A. CCH Press*, Chicago
- Pavlin, I. 2001B, Notes on the field visit to Carrefour and Delhaize headquarters, Brussels.
- Pavlin, I. 2003. “Autonomy and Survival. Conversion of a voluntary chain into franchise operation in Slovenia.” *Paper presented at the **EMNet**-Conference on "Economics and Management of Franchising Networks"*. Vienna, Austria, June 26 – 28, 2003
- Preble, F.J. and Hoffman, R.C. 1998. »Competitive advantage through specialty franchising« *Journal of consumer marketing.* 15 (1): 64-77. MCB University Press

- Quinn, B and Alexander, N. 2002. »International retail franchising: a conceptual framework«. *International Journal of Retail and Distribution Management*. 30(5): 264-276
- Rebernik, M., Tominc, P. Glas, M., Psenicny V. 2003. Kako podjetna je Slovenija (How entrepreneurial is Slovenia. *Global Entrepreneurship Monitor. Slovenia 2002. Faculty of Business Economics*. Maribor.
- Rubin, Paul. 1978. »The theory of the firm and the structure of the franchise contract«, reprinted in Hoy, Frank and Stanworth, John (ed.) 2003. *Franchising: an international perspective. Routledge*. London and New York.
- Stanworth, J., Price, S., Purdy, D., Zafiris and Gandolfo, A.1996. »Business format franchising: innovation and creativity or replication and conformity? « *Franchising Research: An International Journal*. 1 (2) MCB University Press. ISSN 1359-852X: 29-39.
- Stanworth, J., Curran, J. 2003. "Colas, burgers, shakes and shirkers: towards a sociological model of franchising in the market economy" Hoy, Frank and Stanworth, John (ed.) 2003. *Franchising: an international perspective. Routledge*. London and New York.
- Swan, Christopher: "Rapid Progress Expected" Franchising", FT Survey, Financial Times, 05.06.02, www.ft.com/franchising2002
- Williamson, O.E. 1985. The Economic Institutions of Capitalism. *Free Press*. New York.