China-USA Business Review, May 2016, Vol. 15, No. 5, 232-242
doi: 10.17265/1537-1514/2016.05.003

Innovation in Franchising Systems—Stories of Poland and Croatia

Marta Ziółkowska
Warsaw School of Economics, Poland
Aleksandar Erceg
Josip Juraj Strossmayer University, Osijek, Croatia

The goal of this paper is to present innovations in franchising in the context of implementing actions in franchise systems in Croatia and Poland. Franchisors in both countries have similar approach to innovation process in their systems—they have main role. Most franchisors are encouraging franchisees to innovate and most of franchisee's innovations are being implemented in franchise system. Relationship in innovation process is two-ways and has to be communicated as such. The aim of this research and paper was to systematically analyze process of innovation in franchise systems in Croatia and Poland. Whereas studies of innovation in franchising systems in the western world have been made already, this is one of the first studies that are looking into innovation processes in franchising in Eastern Europe especially in Croatia since there was no official research in franchising. In both countries, franchisors have the main role in innovation process in franchise systems but they are encouraging franchisees to present their ideas in order to help further growth and success of the system. The paper's findings show importance of innovation process in franchising and how it is being managed in both countries and they contribute to the franchising literature by providing new evidence on how to deal with innovations in franchising systems. Additional research should be conducted in relation to innovation in franchising system regarding to influence of innovation to future profits, increase of employment, growth of franchising systems, etc. in both countries.

Keywords: franchising systems, importance of innovation, innovations processes in franchising, franchisor's role in innovation process, franchisees, Croatia, Poland

Introduction

Although franchising has a long history worldwide, in the Eastern Europe, franchising became popular in the late 1990s after these countries opened to the market economy and allowed the entry of foreign companies. Influence of franchising on national economies is well known and researched. The USA franchise companies account 1,300 billion USD in sales and employ around eight million people (US Census Bureau, 2010) and Europe franchise companies have 145 million EUR sales and employ around 2.5 million people (European

Marta Ziółkowska, Ph.D., assistant professor, Institute of Management, Unit of Corporate Management, Warsaw School of Economics, Poland.
Aleksandar Erceg, Ph.D., assistant professor, Faculty of Economics, University of Josip Juraj Strossmayer, Osijek, Croatia.
Correspondence concerning this article should be addressed to Aleksandar Erceg, Faculty of Economics, Josip Juraj Strossmayer University, Osijek, Gajev trg 7, HR-31000 Osijek, Croatia.

Franchise Federation, 2011). Influence of franchising in the Eastern European countries is still being evaluated, due to the fact that franchising is still not recognized as way of doing business. Franchising is important because it can help companies to grow their business as franchisors and also help start-up entrepreneurs to enter the market as franchisees. In order to be successful, franchise has to be able to adapt to the market needs and if necessary to innovate their products and/or services.

The purpose of this paper is to determine who is the innovation leader and who introduces innovation process in franchising systems in Croatia and Poland. Process of innovation in franchising is of great importance not only in these two countries but also in franchising as whole and therefore it is important to understand the role that franchisors and franchisees have in this process. Research about innovation in franchising is important for franchising expansion in both countries since franchising is one of the possible ways of growing business and geographical expansion.

This paper is divided into several parts. In the first part, literature overview on innovation in franchising will be given. In the second part, innovation process in franchising systems in both countries will be analyzed and their importance for system will be showed in order to understand process of innovation in franchising systems. The paper ends with short conclusion and implications for business practice and further research.

Innovations in Franchising—Literature Overview

Innovations have become an important issue all over the world, as well as in the micro-scale—in individual enterprises and network organizations. Innovativeness is a crucial condition for the increase of products and services attractiveness, which provokes market and exports development and thus influences the company's competitive position. Nowadays, in the times of global economy, all enterprises introduce innovations—renowned, stable, and new ones, just entering the market. Some companies conduct complex innovative actions by creating network organizations in order to profit from the potential, resources, and skills of all the network's members. In today's economy, the greatest market success is achieved by enterprises which devote the time and efforts to looking for innovations in all their scopes of activity and which implement innovations more frequently than others. Focusing on innovativeness can be considered as the most important challenge of the future. The aim of competitive companies may become to create innovation operating systems, in which innovation introduction is treated as an element of a long-lasting strategy. Innovation is considered as one of the most important characteristics that allow companies to have successful and competitive business. Schumpeter (1934) defined innovation as activity of adding new characteristics or mixing of characteristics in production and stressed the importance of innovation for a successful business and stated that innovation is the main driver of economic development. Innovation is considered to be one of the main components of entrepreneurship and a key element of business success. Increased importance of innovation for entrepreneurship is reflected in a significant increase of research on the role and nature of innovation (Johannessen, Olson, & Lumpkin, 2001). Drucker (2007) defined innovation as an organized and meaningful change and the need for system opportunities analysis that such changes may offer economic or social innovation. The most commonly used definition of innovation is focused on new things. In the European Commission (1995) Green paper on Innovation, innovation is defined as synonym for the successful production, assimilation, and exploitation of novelty in the economic and social spheres. Innovation is mainly associated with the development of new products, new services, and new processes, so it can be defined as new concept generated by a firm for its product development, service procedures, and marketing strategies. Innovation, according to Drucker (1998), is specific function of entrepreneurship, whether in an existing business, a public service institution, or a new venture started by a lone individual in the family kitchen. By using innovations, entrepreneur creates new resources in order to produce new value or adds to existing resources potential for creating additional value. However, it is not easy to manage innovations because of its features of complexity, changeability, and uncertainty (Cliquet & Nguyen, 2004). The sources of innovation can be located inside and outside the company. Drucker (2007) listed seven potential areas in which there are opportunities for innovation, four of which are within the company: unexpected occurrences, discrepancies, process needs, and market changes in the industry. The remaining three are located in the environment outside the company: social and intellectual environment, changes in perception, and new knowledge. Innovations are extremely important driving force of the economic growth and economies characterized by a high level of innovativeness demonstrate higher levels of economic growth. Innovation is increasingly seen as a powerful mean of ensuring competitive advantage and is one of the key factors in the survival strategies of each company (Drucker, 2007). As a guiding force, innovation leads companies toward long-term goals and renewal of industrial structure and is responsible for the emergence of new sectors of economic activity. Consequently, enterprises which implement innovations gain competitive advantage and increase company's value.

Franchise relationships use globalization attributes for their development, repeating the same business model and the same idea for franchise units even in the remotest markets of the world. Franchise is characterized by the fact that it can be adapted and modified with the help of the franchisees' organizational skills, the knowledge about customers' preferences and local market's conditions, without changing the core concept at the same time. This contributes to the increase in employment figures and to the creation of enterprise idea.

Summing up the notion of innovation in franchise relationships, it is worth noting that there are no sudden or fundamental innovations in franchise systems, which would imply their total transformation or introduction of a completely new commercial conception, such as the first supermarket in 1957 or discount stores at the beginning of the 1980s. Researchers (Brickley & Dark, 1987; Krueger, 1991) stated that franchise business model innovation emerged due to the limited resources that are available to entrepreneurs. Stanworth, Price, Purdy, Zafiris, and Gandolfo (1996), for innovation, stated that it is a successful commercial use of the invention or new administrative use of pre-established knowledge. Dandridge and Falbe (1994) came to the conclusion in their study that innovation management in franchise systems requires encouraged entrepreneurial activities within the system. Sundbo, Johnston, Mattsson, and Miller (2001), in their study of the behavior of Swedish and Australian franchise entrepreneurs, concluded that under the influence of many factors, they have changed standard offer of franchise system in their markets. Among other things, these factors included culture, development of industry in another country, and employees. But the innovations that have created franchise entrepreneurs were generally more incremental than radical nature. In this research, incremental innovation was defined as adaptation of existing products or new ways of delivering products to the market. This innovation is the most common kind of innovation in franchise business mode.

Stanworth et al. (1996) identified factors that influence innovation in the franchise. Franchise systems' ability to innovate and adapt to the environment in which they operate and the changes in the market, allows them to survive and grow. Even decisions about use of the franchising, if viewed from the perspective of human resources, finance, or ownership, can be considered as innovation. They also pointed that despite initial innovative efforts in adopting the franchising, franchisor's survival in various stages of business development, market, or industry sector requires innovative changes. The proximity of the market and consumers affects franchisees' role in innovation in the franchise system.

Falbe, Dandridge, and Kumar (1998) concluded in their study that the relative growth and size of the franchise system are positively correlated with the support that the franchisors provide to franchisees' innovations. Authors divided (Falbe, Dandridge, & Kumar, 1998, p. 133) activities with which franchisors' managers support franchisees' entrepreneurial activities into three main categories: use of a franchise council, the recognition of new ideas at the annual meeting of the franchise system, and the presence at franchisor headquarters of a champion for innovation. Innovations in the franchise system are not uncommon and very often some of the bestselling products are results of franchisees' innovation (Kreutzer, 2012). Unlike Falbe, Dandridge, and Kumar (1998), Weaven (2004), in his research on McDonald franchisees, found that one location franchisees do not consider innovation's significance for their business. Instead, they emphasized financial security and control of marketing costs as factors of success in franchising.

Research about innovation in the franchise system, which was conducted by Lewin-Solomons (1999), showed that the process of innovation in fast food restaurants franchises varies depending on the proportion of franchisees locations in the total number of franchise system locations. Research has shown that if this proportion is significant, more innovation and creativity come from franchisees. In franchise systems that have bigger share of locations owned by the company, innovations come from headquarters and almost always are the first implemented in company's owned locations. D. A. Baucus, M. S. Baucus, and Human (1996) indicated in their study that the franchisees are often encouraged to be innovative, especially when it comes to matters of local marketing and product development.

Genn and Kestenbaum (2008) highlighted that innovation helps franchise system to grow because it is difficult to achieve growth in poor economic conditions. In such circumstances, the franchisor offers innovative strategies with which existing franchisees can achieve benefits and at the same time these strategies may attract new qualitative franchisees. Many creators of franchise systems present franchise as an innovative and unique idea. These results in a way from the nature of franchise relationships, whose essence is often described as a unique and distinctive idea for business. However, such solutions are not always innovative. Innovations in organizations are related to creating new ideas and solutions, as well as implementing and/or adapting them within the organization. According to some experts, a new idea may be a combination of old ones, a scheme altering the existing state of affairs, or a unique formula or attitude considered as new (Van de Ven, Polley, Garud, & Venkatraman, 1999).

Franchise relationships can also be analyzed with relation to innovation as a modern method of products and/or services distribution. Within this approach, franchise is treated as an innovative development way of the enterprise. Franchise relationships are indeed innovative for companies which use them in market expansion. Another innovative method is developing franchise units created in companies which have their own points of sale. Then, introducing franchise relationships besides these points of sale is considered as an organizational innovation, while innovations related to franchise relationships may be treated as innovations within systems. There exist two sources of innovation inside franchise relationships: the franchisor and the franchisees. Based on these two sources of innovation Cliquet and Nguyen (2004) developed two models of innovation process in franchise systems. Literature and empirical studies indicate that franchisors implement more innovations than franchisees. They present, create, develop, and popularize the idea of franchise system, as well as their unique know-how. As a result, the franchisor is the initiator, creator, and organizer of the franchise system.

Nevertheless, some innovations within franchise systems come from franchisees. They may appear because franchisees implement the franchise idea on local markets, which results from the essence of franchise. Because of this, they may benefit from the experience gained when running a franchise unit in accordance with a precisely prescribed conception. Thanks to direct contact with customers, franchisees get their feedback on the enterprise's offer and the way in which it is delivered to them. Furthermore, when creating franchise units, franchisees adapt the idea to the local market and conditions.

In franchise relationships, both parties can profit from knowledge they are sharing. Experience and research suggest that shared learning can help to cope with learning barriers which individual companies might face. For example, in shared learning there is the potential for challenge and a structured critical reflection from different perspectives; various perspectives can bring in new conceptions (or old ones which are new to the learner); shared experimentation can reduce the perceived and actual costs or risks of trying novelties; shared experience can provide support and open new lines of inquiry or exploration; shared learning helps to explicate the system's principles and see the pattern; shared learning provides an environment for creating assumptions and exploring mental models outside of the usual experience of individual organizations—it helps to prevent the "not invented here" and other effects; shared learning can reduce costs (for example, in drawing on consultancy services and learning about external markets), which can be particularly useful for small/medium enterprises (SMEs) and for companies in developing countries (Bessant & Tidd, 2011).

Innovations in franchise can be gradual or regular and they consist mainly in improving already existing processes, everyday procedures, cost-cutting programs, or logistics (Liebmann, Foscht, & Angerer, 2003). Myers (2013) concluded that although franchising by its nature discourages innovation on the part of franchisees due to the fact that they have to follow specific policies, innovative franchisees can contribute to the franchising system. Wilson (2014) stated that franchisees have to earn the right to innovate and have to be able to make compromises about their idea implementation and possible changes so the whole franchise system can benefit from it. This is only stating that innovations in franchise system do not necessarily come from franchisor but from franchisees as well. It should be highlighted that innovations in franchise relationships, which are related to implementation of new concepts, products or services, and aim for the improvement of the franchise-customer relation. Usually, innovations related to the network organization aim to improve the franchisor-franchisees relation. This approach has a double character since the franchisor has two types of clients: customers and franchisees. The analysis of innovations in franchise networks indicates that along with a lower level of the system's standardization, the franchisor is able to profit from the knowledge and experience of the franchisees but at the cost of losing total control over the system's quality. Such a solution may be introduced in franchise relationships whose key aspect for innovation creation is the knowledge of the local market's conditions. Franchisors have to be able to balance their franchisees' ideas, for instance, for product innovations, in order to maintain the system's standards and image uniformity. Taking the above arguments into consideration, it should be noted that by means of creating complex solutions and providing innovative concepts for the customers, franchise enterprises are able to create the customers' needs and preferences, which in consequence may lead to gaining the competitive advantage.

Research Methods

Both countries started with franchising in the late 1980s and early 1990s of last century due to the fact that franchising was not known as way of doing business. Currently, in Croatia, there are around 180 franchise systems that are working on 950 franchise locations and employ around 17,000 people. From the total number of franchise systems currently operating in Croatia, only 35 franchise systems are of Croatian origin (European Franchise Federation, 2011). The largest share of franchise systems operating on the Croatian market have fashion brands franchises, followed by restaurant, fast food, and rent-a-car franchises. Together they hold 70% share of all franchise systems operating in Croatia. It should be noted that the data on the number of franchisors and franchise systems are unofficial because neither the Croatian Franchising Association nor some other researchers have conducted a full research on franchising in Croatia. On the other side, Polish franchise market has been constantly growing. The number of franchising systems has grown continuously since 1995. In 1994, there were basically two systems available to potential franchisees—Yves Rocher and McDonald's. In 2013, this number skyrocketed to 941 systems. At the beginning of 2014, there were approximately 58,000 franchise outlets in Poland. Polish franchise market is growing primary in retail sector and secondary in services sector. Once again the biggest rise has been reported in groceries. In services sector (gastronomy, hairdressing, education, finance, etc.), the number of franchise outlets has grown by approximately 1,280 units. In 2012, there were 680 Polish brands and 184 foreign ones operating on the Polish franchise market.

Research was conducted in two countries in Eastern Europe—Croatia and Poland. Total sample size was 154 franchisors and franchisees of which 33 franchise systems were from Croatia and 121 companies, from which 51 were franchisors and 70 were franchisees from Poland. Sample in Poland was bigger due to bigger total number of franchise systems currently operating there. Sample in Croatia was compiled using available lists from Croatian Franchising Association and Ministry of Entrepreneurship while sample in Poland was compiled from the list of franchising companies in Poland. Respondents in Croatia belong to one of the following groups: owner of the franchisor company, franchising manager, and general managers; while in Poland they belong to one of the following groups: development managers, franchise chain managers, owners, general managers, and financial managers.

The study was conducted using CAPI method. Duration of the interview was 30 minutes and it took place in the respondent's company. The Polish sample had amount character—the interviewer independently chose the company in accordance with correct parameters and carried the interview while in Croatia survey was conducted based on reply to e-mail invitation for a research. In accordance with the population structure, the amount has been set up (determined quantity of interview homologous with the population of franchise systems structure) for each of 16 regions and categories: retail and services. Collected data were edited and entered into SPSS database and then statistical analysis of the collected data by using SPSS was done. Data were analyzed using parametric and non-parametric statistics, with the aim of identifying functional relationships of variables. In addition to descriptive and univariate statistical data analysis, bivariate analysis and multivariate statistical analysis of data were also used. In bivariate statistics, relationship and connection between two variables were observed, where intersections and correlations were used. Non-parametric tests were used for attribute characteristics or for numerical characteristics in case of small samples that do not have normal distribution. For testing the difference between nominal variables characteristics x^2 (Pearson) test was used. One-way analysis of variance (ANOVA) was used to test the significance of differences between means of multiple samples in independent and dependent samples. As a prerequisite for above mentioned tests, homogeneity of variances was tested. From multivariate methods, factor analysis was used to examine the psychometric properties of used scales, which consist of a large number of questions.

Research Results and Discussion

The largest number of respondents that completed questionnaire comes from the sector providing various services (31%), followed by retail and hospitality sector. Those three sectors make 78% of the total number of respondents. The average age of respondents was 39.5 years old, they had an average of 15.9 years of service, they were employed for an average of 7.65 years in franchising and they held their current position for an average of 6.18 years. Regarding position in the company, more than half of respondents (60.6%) are the owners, 36.4% are heads of franchising departments, and 21.2% are sales managers. It is important to emphasize that in certain cases a person performs multiple functions.

Based on research data, it is important to emphasize that one quarter of franchisors and one third of franchisees did not implement any innovations in the franchise chain in the last five-year period. This could be signed that innovation in franchising takes time for whole process. Data signalize that 46% of franchisees have implemented few innovations. Implementation of 4-10 innovations achieved 24% of franchisors and only 12% have implemented more innovations in their franchise system (Table 1).

Table 1
Company Innovation Activity in Last Five Years

	Total	Franchising		Network size			
		Franchisor	Franchisee	To 10	10-20	20-50	More than 50
No innovation	32%	24%	37%	43%	36%	15%	25%
1-3 innovations implemented	44%	41%	46%	45%	50%	36%	44%
4-10 innovations implemented	18%	24%	14%	10%	7%	34%	25%
More than 10 innovations implemented	6%	12%	3%	2%	7%	15%	6%

Innovation activity shows that it is diversified by the size of franchise network. It exhibits that small chains have difficulty in implementation of innovations. No innovations were implemented by 43% of respondents represented by small networks. Few innovations were pointed out by 50% of medium sized networks. Research results permit to extrapolate the conclusion that with the growth of network size, there is no significant growth in implementation of innovations in the research period. Companies which belong to network bigger than 50 participants most frequently declare few innovations implementation (44%). It is worth to notice that they often declare lack of innovation implementation (25%). On one hand, companies which belong to network bigger than 50 participants most frequently declare few innovations implementation (44%). It is worth to notice that they often declare lack of innovation implementation (25%). On the other hand, companies acting in small networks in higher grade declare that few innovations have been implemented in the company (45%). It is important to state that the franchise systems that introduce innovations, new products, and services more often were the majority among respondents—46.9% for innovations, 40.7% for new products, and 34.4% for new services.

In case there is innovation in franchise system, it is important to see who is the initiator of innovation or leader in innovation process. Most respondents replied that the innovation initiator and partner, which should encourage innovation in the franchise system, are and should be franchisors, while franchisees, according to the respondents, have much smaller impact on innovation in the franchise system (Table 2).

It was stated that in the process of innovation in the franchise system a major role also has franchisee since innovation is a three-part process. First, some franchisees find an improvement and with the franchisors' approval share it with everyone. Second, a franchisee identifies a need and asks the franchisor to develop the solution. Third, option is that the franchisor identifies a technology or system that will improve performance for the whole system and develops that with franchisee assistance to test and recommend to the entire system. The franchisor must balance new product innovative ideas with the need to maintain system uniformity and standards. If the franchisor allows franchisees the freedom of creating and selling new products or services, this may create confusion for consumers. This possibility exists if the product is not entirely in line with the brand and quality standards of the franchise system. Therefore, the franchisor must secure him with a contract and prevent franchisees to sell such new products or products different from the standard if these products were not previously confirmed by franchisors (Kreutzer, 2012).

When the sources of innovations were analyzed in franchising networks, it was important to notice that customer's needs are the most essential factor for both franchisors and franchisees—61% and 72%. Next factor contacts with companies inside the chain—40% and 38% (Table 3).

Table 2

Initiator of Innovations in Franchise System

	Strongly disagree	Partially disagree	Neither agree nor disagree	Partially agree	Strongly agree
The franchisor is the leading innovation in the franchise system	0.0%	6.3%	3.1%	9.4%	81.3%
Franchisor should encourage innovation in the franchise system	3.1%	0.0%	6.3%	12.5%	78.1%
The franchisee is the leading innovation in the franchise system	18.8%	40.6%	21.9%	18.8%	0.0%
Franchisee should encourage innovation in the franchise system	12.5%	18.8%	6.3%	62.5%	0.0%

Table 3

Sources of Innovations in Franchising Chain in Last Five Years

	Total	Franchising	
		Franchisor	Franchisee
Own R&D	9%	14%	4%
Contacts with companies inside network (franchisor and franchisees)	40%	38%	42%
Contacts with companies outside network	21%	20%	21%
Customers' needs	67%	61%	72%
Employees and management	32%	40%	24%
Fairs	9%	10%	7%
Publications	11%	13%	9%
Competition	38%	29%	47%
Outside R&D	6%	7%	4%

The second most important sources of innovation for franchisors are employees and management of the company (40%), while franchisees more often point out competition as the source of innovation (47%). It has the significance because franchisor is the business concept creator and coordinates the entire franchise system, hence franchisor's employees are directly involved in innovation creation and implementation in the company and in the franchise chain. In deeper analysis, it is worth to mention that own R&D, as innovation source, was pointed out by only 14% of franchisors and 4% of franchisees. Research also showed that cooperation with independent R&D is important for only 7% of franchisors and 4% of franchisees. Usage of knowledge and experience of specialist R&D departments is rarely used by franchised companies. Based on the obtained results it is important to mention that in this area there is the opportunity to better utilize contacts with companies inside the system in order to create innovation in franchising. Franchisors from both countries should follow examples from the biggest and world's most famous franchise systems like McDonalds which have their own R&D centers in which they create and test new innovations for their systems.

Relationship in franchise system between franchisor and franchisees is very important and it is also reflected in innovation process where most of the respondents stated that they encourage franchisees to innovate (78.1%) and that franchisees' innovation is implemented in the system (81.2%) (Table 4).

Table 4

Innovations and Franchisees

	Never	In rare cases	Sometimes	Almost always	Always
Do you encourage franchisees to innovate in your franchise	6.3%	15.5%	40.6%	28.1%	9.4%
Franchisee innovation is implemented in whole franchise system	0.0%	18.8%	43.8%	31.3%	6.3%

Relationship among innovation process, franchisor, and franchisee has to be communicated in all directions since what works at corporate does not always work in the field and what works in the field does not always work at corporate level. In the future, franchisors should look for new concepts, product offers, and ways of providing services, since it is difficult for franchisees to adapt to changes taking place in franchise systems during the franchisor-franchisee cooperation. It is easier for potential franchisees to enter a new system and profit from innovations than to implement them during the franchise cooperation. Innovation management in a franchise network may be difficult in case of an already existing network because it results from the nature of franchise—the franchisee is an independent entity obliged to run a franchise unit according to the franchisor's guidelines. Such guidelines and rules are defined at the beginning of the franchisor-franchisee cooperation and it is difficult to implement changes to the franchise system afterwards. Then, it is better to update the operational rules but the franchisees may still be reluctant to changes. Franchisors have to create innovations and implement them into the system, but they also must convince the franchisees that new ideas are the right ones, especially when their implementation requires franchisees to engage their resources in order to modernize their unit or introduce other changes imposed by the franchisor. In such case, it is crucial for franchisors to have their own units, which can be used to test innovations and check customers' reactions to them.

Conclusion

The aim of this research and paper was to systematically analyze the process of innovation in franchise systems in Croatia and Poland. Whereas studies of innovation in franchising systems in the western world have been made already, this is one of the first studies that are looking into innovation processes in franchising in Eastern Europe especially in Croatia since there was no official research in franchising. Goal of the research was to find out how the franchisors in Croatia and Poland are approaching innovations in their franchise systems and in order to make analysis data that obtained from the research was combined with secondary data about franchising in both countries. Research data are showing that the franchising in Poland is more advanced than that of Croatia. There are more franchise systems in Poland and the share of domestic system is significantly higher in Poland than that of Croatia. In both countries franchisors have the main role in innovation process in franchise systems but they are encouraging franchisees to present their ideas in order to help further growth and success of the system.

As it has been shown above, the main goal of enterprises in today's economy is to create competitive advantage in order to reach a better position than other companies or franchise systems have. The best way to achieve competitive advantage is to combine two or more franchise systems into a network. An example of such a solution in the Polish market is the cooperation between McDonald's and Carrefour. It is important to state that such examples do not exist in Croatia since there is still no recognition that cooperation between different franchise systems can bring mutual benefits for two or more franchise systems. Nonetheless, as mentioned before, it is difficult to find revolutionary innovative solutions related to franchise systems. This results from the nature of franchise relationships. Analyzing innovations in franchise, it should be noted that they are rather gradual than radical. Innovations in franchise relationships are frequently "imported" to a given market from other countries, from non-franchise networks or from other industry sectors.

Further research should be conducted in relation to innovation in franchising system regarding to influence of innovation to future profits, increase of employment, growth of franchising systems, etc. in both countries since franchising represents important growth strategy in the developed world and in which innovation can help companies being better in global competitive world.

References

Baucus, D. A., Baucus, M. S., & Human, S. E. (1996). Consensus in franchise organizations: A cooperative arrangement among entrepreneurs. *Journal of Business Venturing, 11*(4), 359-378.

Bessant, J., & Tidd, J. (2011). *Innovation and entrepreneurship*. Chichester: John Wiley & Sons.

Brickley, J. A., & Dark, F. H. (1987). The choice of organizational form: Case of franchising. *Journal of Financial Economics, 18,* 401-420.

Cliquet, G., & Nguyen, M. (2004). Innovation management within the plural form network. In J. Windsperger, G. Cliquet, G. Hendrikse, and M. Tuunanen (Eds.), *Economics and management of franchising networks*. Physica-Verlag HD: Berlin Heidelberg.

Dandridge, T. C., & Falbe, C. M. (1994). The influence of franchisees beyond their local domain. *International Small Business Journal, 12*(2), 39-49.

Drucker, P. F. (1998). The discipline of innovation. *Harvard Business Review, 63*(2), 5-10.

Drucker, P. F. (2007). *Innovation and entrepreneurship* (2nd ed). London: Routledge.

European Commission. (1995). *Green paper on innovation.* Retrieved from: http://cordis.europa.eu/innovation/en/policy/iap1.htm

European Franchise Federation. (2011). *Franchise statistics for 20 countries in Europe*. Retrieved from http://www.eff-franchise.com/130/franchise-data.html

Falbe, C. M., Dandridge, T. C., & Kumar, A. (1998). The effect of organizational context on entrepreneurial strategies in franchising. *Journal of Business Venturing, 14*(1), 125-140.

Genn, A., & Kestenbaum, H. (2008). *Innovation helps franchises grow,* in: Entrepreneur. Retrieved from http://www.entrepreneur.com/article/196418

Johannessen, J. A., Olsen, B., & Lumpkin, G. T. (2001). Innovation as newness: What is new, now new and new to whom? *European Journal of Innovation Management, 4*(1), 20-31.

Kreutzer, M. (2012). When franchisees innovate: Discussing the "Big Mac" provision. *The National Law* Review. Retrieved from http://www.natlawreview.com/article/when-franchisees-innovate-discussing-big-mac-provision

Krueger, A. B. (1991). Ownership, agency, and wages: An examination of franchising in the fast food industry. *The Quarterly Journal of Economics, 106*(1), 75-101.

Lewin-Solomons, S. B. (1999). Innovation and authority in franchise systems: An empirical exploration of the plural form. *Cambridge Working papers in Economics,* No. 15. Cambridge: University of Cambridge.

Liebmann, H. P., Foscht, T., & Angerer, T. (2003). Innovation in retailing: Gradual or radical innovations of business. *The European Retail Digest, 37,* 55.

Myers, R. (2013). *How franchisees can find room for innovation, entrepreneur*. Retrieved from http://www.entrepreneur.com/article/225992

Schumpeter, J. A. (1934). *The theory of economic development*. Boston: Harvard Business School Press.

Stanworth, J., Price, S., Purdy, D., Zafiris, N., & Gandolfo, A. (1996). Business format franchising: Innovation & creativity or replication & conformity? *International Franchise Research Centre. Special Studies Series, 9,* 1-19.

Sundbo, J., Johnston, R., Mattsson, J., & Miller, B. (2001). Innovation in service internationalization: The crucial role of the frantrepreneur. *Entrepreneurship and Regional Development, 13*(3), 247-267.

US Census Bureau. (2010). *Census Bureau's first release of comprehensive franchise data shows franchises make up more than 10 percent of employer businesses*. Retrieved from http://www.census.gov

Van de Ven, A. H., Polley, D., Garud, R., & Venkatraman, S. (1999). *The innovation journey*. New York: Oxford University Press.

Weaven, S. K. W. (2004). Intrapreneurial behavior within the franchising context. In J. Wiley (Ed.), *Marketing Accountabilities and Responsibilities—Conference Proceedings of ANZMAC 2004*.

Wilson, S. (2013). Can franchising and innovation go hand in hand? *All Business*. Retrieved from http://www.allbusiness.com/franchises/13310789-1.html