

BOOK REVIEWS

Alan Felstead, *The Corporate Paradox: Power and control in the business franchise*, London, Routledge, 1993, pp 273, £35 Stg Hb £14.99 Stg Pb.

The Corporate Paradox is the first in-depth study of contemporary business franchises and, as such, provides a revealing account of what goes on behind the facades of some well known high street shops. It is quite likely that most readers will have visited at least one of the following businesses at some time or other: Avis Rent-A-Car, Clark's Shoes, McDonalds, Prontaprint, The Body Shop, and Tie-Rack. You may, perhaps, have been attracted to it because of the popular brand name and you may have assumed that the outlet which you visited was part of a large multi-national chain of stores. But, as Felstead informs us at the beginning of his study, you probably did not know that these outlets were in fact locally owned businesses with a separate legal identity from that of the corporation whose name they traded under. This, as the author points out, is somewhat paradoxical because: 'On the one hand, a franchised business looks and acts like a branch of a much larger corporation, while on the other hand, it retains a distinct legal persona' (p 1). This paradox is the prelude to the central question addressed in the book: who really controls these businesses?

Felstead's aim in focusing on this question is to inform wider debates in economics on the nature of modern business organizations. Two arguments are addressed. The first is the claim that there has been a re-emergence of the small firm in Britain within the so-called 'enterprise culture' of the 1980s. The issue this study addresses is whether or not franchised outlets genuinely represent new businesses or parts of existing ones. The second argument concerns the application of the new institutionalist model of the firm - as developed by Oliver E. Williamson - to business franchises. Does the 'markets and hierarchies' framework account for the possibility that, under franchise arrangements, one party's interests might be indulged at another's expense?

The definition of a franchise which is used in the study consists of four elements: 'the franchisor's ownership of a name, an idea, a secret process, a product, or a specialized piece of equipment; the issuing of a contract permitting the franchise to use it; regulations on the way it is used; and payments made by the franchisee for its use' (p 58). Two main varieties of franchise are identified. One is based on a product, or trade mark, while the other is based on a business format. The business format franchise consists of goods and services which can be identified by a trademark and by a carefully prepared package, or blueprint, which dictates how the entire business is to be established and run by the franchisee. Felstead concentrates on business format franchises principally because there has been phenomenal growth in this type of franchise over the last twenty years. In the UK, for example, the number of franchise

outlets, franchise systems and the amount of franchise related employment has almost trebled since the mid-1980s.

The empirical research for this monograph was garnered from a variety of sources. The author conducted a series of case studies, notably on the Coca-Cola company and McDonald's. He also interviewed a large number of franchisor's and franchisees, analyzed eighty three franchise contracts and the responses of one hundred and ninety nine franchisees to a questionnaire survey which he devised. The diverse nature of the empirical research used in the book has a major influence on its structure as entire chapters are devoted to examining, for example the legal contours of franchising or the consequences of changing franchisor ownership. This means that individual chapters could, as the author suggests, be read in isolation from each other as they are more or less self-contained.

The principal argument of the book is that there is a clear imbalance of power between the franchisor and the franchisee. This results from the franchisor's policing of the standards of quality and service which are associated with the trade mark. The high standards associated with the trade mark is a key factor in attracting customers and, to a lesser extent, potential franchisees to the business. The single most important attraction for franchisees is the 'chance to become your own boss'. This, as Felstead clearly demonstrates in his analysis of the franchise contracts, is a myth. Franchisees are often required to operate within strict regulations which may be subject to unilateral change; they may have to adhere to set performance targets; they generally have to maximize turnover even though it may on occasion be against their interests; they may have to abide by franchisor-imposed restrictions on equipment even after the agreement has ended; and their income only consists of the residual profit after the franchisor's royalties have been paid. Moreover, the franchisee has no ownership rights over the intangible business assets, rather they merely 'borrow' the business idea, trading name and/or format.

Perhaps the strongest evidence of the imbalance of power is the primacy attached to the franchisor's need for turnover maximization and, consequently, to their royalties. This might not always suit the franchisee who might be happy to sustain profits by rising prices and selling a smaller output. These tensions are clearly illustrated in the case study of the restructuring of the Coca-Cola Company's franchises in Germany. There, the Coca-Cola Company contrived to make regional based franchisees merge which meant that they became committed to a low cost, high volume production system that generated higher revenues and royalties.

At this point it might be asked how exactly franchisees make a profit for themselves when they have such limited control over their own outlets. The answer would appear to lie with the somewhat traditional practice of extracting high levels of effort from employees in the franchise outlets. This is neatly encapsulated in a quote cited by the author: 'franchisee-owners just watch the little things closer; they utilize the cooks and waitresses better; they reduce waste' (p 69). One could also infer that the

franchisees themselves appear to engage in a process of self-exploitation. They may, as Felstead finds, have invested their life savings, sometimes raised by taking out a second mortgage on their house, in a business where they have no ownership rights over the intangible business assets. After that they then have to ensure that they generate profits which are large enough to pay the royalties while leaving something for themselves. Indeed it could also be concluded from this study that high street franchises have all the properties of sweat-shops albeit in more glamorous surroundings.

Alan Felstead has clearly opened up new empirical terrain with this study. In doing so he exposes the inability of the new institutionalist model to account for the way in which the franchisor's concept of 'efficiency' takes precedence over that of the franchisee. My criticisms of this study centre on what I feel is the author's failure to do his research justice by only having a rather limited discussion of the wider implications of his findings. For example, one might have expected the author to draw out the significance of his findings for the consumer who, as he suggested at the beginning of the book, may not be aware that the local Body Shop is in fact owned by a franchisee and not by Anita Roddick. More specifically, it would have been nice to know the authors view, on whether or not it makes any difference to the consumer who actually owns or controls the local outlet. Apart from that I believe that this is a fine study of an interesting subject and I have no hesitation in recommending it to those who study or teach, either organizational studies, industrial sociology, or industrial economics.

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Terry Cradden, *Trade Unionism, Socialism, and Partition; the Labour Movement in Northern Ireland, 1939–1953* (December Publications, Belfast, 1993), xi+244pp, paperback, £15.00, ISBN 0 9517068 5 3

In all the attention given by the left to the Northern Ireland problem, there has been a remarkable neglect of labour organization under the Stormont regime. This study of the Irish Trade Union Congress (ITUC), the Congress of Irish Unions, and socialist groups during a pivotal era, exceptional for the way it inter-connected six county and southern labour, fills a big gap in the literature.

The 1940s were years of optimism for Northern labour. After two decades of economic depression, the war brought near full employment. For the first time since 1920 trade unions were able to recruit the mass of general workers. They acquired also a novel unity. Formerly, there had been little sense of a labour movement in Northern Ireland. Congress virtually ignored the region, and few Northerners bothered with Congress. As wartime growth led to a big increase in its cross-border affiliation, the ITUC appointed a Northern Ireland Committee (NIC) in 1944. In effect, the NIC developed as a regional Congress. *De facto* autonomy for the North within a nominally all-Ireland framework proved a durable solution to what might have become an intractable issue. Despite Stormont's refusal to recognise the NIC because it answered to a "foreign Congress", and suggestions that an "Ulster TUC" would be more appropriate, trade unions stood firm until the O'Neill government agreed to recognition in 1964.

For socialists, it was a different story. Discontent with the slack Unionist administration, the closer contact with a radicalizing Britain, and involvement in a global war against fascism swung popular opinion to the left. Cradden argues that the sectarian political mould was starting to crack. In the 1945 elections, left-wing groups won some 45% of the vote in Belfast, and 30% in other constituencies they contested. But in 1948–49 the Northern Ireland Labour Party (NILP) split over the national question, and support for the left slumped.

Cradden's central theme is the forces which produced industrial unity and political division. He attributes trade union success to two sets of factors. First, the NIC offered a practical compromise between the reality of Northern Ireland's distinctive agenda and the principle of cross-border unity. This was especially suitable to the British unions who dominated the North, many of whom had members in Éire and were reluctant to risk losing that membership by pushing for an "Ulster TUC" or seeking incorporation within the British TUC. Paradoxically, the heightening friction between Irish and British based unions in Éire, and the anti-partition campaign of the late 1940s reinforced commitment to the NIC. So too did the breakaway Congress of Irish Unions (CIU), formed in 1945 by Irish unions hostile to alleged British domination of the ITUC. Without the explicitly anti-British unions the ITUC acquired a more acceptable tone, and a more balanced cross-border composition. Secondly, there were ideological

forces for cohesion; chiefly the loyalty of union leaders to the ideal of workers' unity, the fear that an "Ulster TUC" would open a can of sectarian worms, and a visceral reluctance to be dictated to by Stormont.

The intensity of feeling and the naked clash of opinions in this story of struggle for unity in the divided North and schism in the homogenous south makes Congress records for the period unusually vivid in revealing contemporary labour mentalities. Cradden's account is fascinating, and often amusing. At the same time it is limited by its focus on leaders rather than workers, and on the Congresses rather than trade unions, who were after all the more important institutions. Compounding this distortion, Cradden adopts an idealist approach which puts too much weight on ideology, and not enough on material forces. If, for example, the split in Congress was rationalized in terms of nationalism, it was not simply the case that nationalist unions decamped to the CIU. Almost all CIU affiliates were private sector unions, critical of the ITUC's negative attitude to state intervention in industrial relations. Public sector unions, most of them equally nationalist, stayed with the ITUC. Similarly, the NIC's defence of its link with Dublin was hardly representative of the views of Protestant workers. This dislocation of ideology and actuality, which reflected the gap between labour's anglicized values and the realities of Irish politics and industrial relations, or the clumsy reaction to it on the part of the CIU, deserves closer scrutiny.

Cradden is more comprehensive, and his historical method is more satisfactory, in dealing with the socialists. In an introductory polemic he rejects the "depressing symmetry" of anti-imperialist and two nationalist interpretations, which attribute the failure of socialism in Northern Ireland to either the endemic Orangeism of the Protestants or reactionary Catholic nationalism. Cradden's declared preference is for "the democratic alternative"; a view that Catholic and Protestant workers could have been united round a three plank platform of social reform, civil rights, and a position on the constitution that would take prolixity to explain, but which basically accepted the existence of Northern Ireland while not opposing Irish unity and trying invariably to marginalize nationalism and Unionism (try selling that on the doorstep). The NILP had always championed the first plank. Emboldened by its recent electoral successes, it adopted a higher profile on the second at its 1947 annual conference. The third plank defeated the party.

The NILP had never devised a strategy for dealing with Northern Ireland's chronic communal divisions. Members were free to hold any view on the constitution. While Cradden is excellent in delineating the various strands of thought, ranging from republican to pro-Union, that comprised the NILP and other left groups, he is ambivalent on the importance of internal segmentation. To conclude that "but for the anti-partition campaign, the declaration of a Republic and the Ireland Act, the NILP would have held together" in 1948-49 downplays the enormous significance of the fact that socialists themselves could not reach a consensus on the constitutional question. On the other hand, Cradden reviews the wider range of factors that caused the split, and he

invites a tantalising counterfactual in showing that there was a core of support, and a broader sympathy, for “the democratic alternative”. At the very least, his detailed research succeeds in qualifying many prevailing generalizations.

This history is a major recovery of forgotten people and their politics; provocative, relevant to an understanding of labour in Northern Ireland today, and essential to students of the period.

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