

## **MARKETING STRATEGY CHOICE OF MEMBERS OF A FRANCHISE NETWORK: THE CASE OF SIMIT SARAYI**

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### **Abstract**

*In this paper, the exceptional story of “Simit Sarayi”, transformation from a national café into an brand name manufacturer and retailer, is discussed with respect to network modalities and strategic management processes. How a manufacturing firm has managed to achieve a high value added competitive advantage? Does being a partner of network (taking franchising licence) and getting the advantage of retailing network satisfies only the necessary conditions to be a global retailer or both necessary and sufficient conditions? This paper contains the interesting idea that marketing strategy choice of members of a franchise network may be related to their structural position in that network. It develops a potentially valuable metric of proximity to network resources and deploys the somewhat novel CRT technique to test some propositions. Within this research firm’s achievement of a high value added competitive advantage is expressed with network modalities. The research design would benefit from clearer focus on the strategic options open to the individual franchiser.*

*Keywords: Social networks, Organizational networks, strategic networks, strategic management, CRT technique, franchising service systems*

## INTRODUCTION

Since the beginning of the 20th century, organizational theory studies generally estimate the features of successful organizations through using certain characteristics of other companies (Weber, 1922), or try to establish a system management model that can increase the wealth of the company through setting up the edges between the companies or nodes (Roethlisberger and Dickson, 1939). A social network is a social structure made up of individuals (or organizations) called "nodes", which are tied (connected) by one or more specific types of interdependency, such as friendship, kinship, common interest, financial exchange, dislike, sexual relationships, or relationships of beliefs, knowledge or prestige. Social network analysis explains social relationships in terms of network theory consisting of nodes and ties (also called edges, links, or connections). Nodes are the individual actors within the networks, and ties are the relationships between the actors. There can be many kinds of ties between the nodes. Most of the organizational studies are based on the relationship between and interaction of nodes, organizations or groups.

It is known that inter-organizational economic relations are embedded within social relations in the network (Granovetter, 1985; Uzzi, 1997). While nodes are settled in the network structure, relations of the network sometimes limit the node; while at other times provide some possibilities. If the nodes are not limited by the network, this shows that the particular node is in a position which is relatively advantageous. Recent researches mentioned that the networks of relationships in which firms are embedded also influence their conduct and profitability (Gulati, Nohria and Zaheer, 2000; Dyer and Nobeoka, 2000 and Baum, Calabrese and Silverman, 2000). More interesting approach is used by Gulati and others (2000) to the groups of firms labelling as "strategic networks". They highlight the idea that "the strategic networks potentially provide a firm with access to information, resources, markets and technologies with advantages from learning scale and scope economies, and follow firms to achieve strategic objectives, such as sharing risk and outsourcing value chain stages and organizational function" (2000).

This paper contains the interesting idea that marketing strategy choice of members of a franchise network may be related to their structural position in that network. It develops a potentially valuable metric of proximity to network resources and deploys the somewhat novel CRT technique to test some propositions.

The theoretical framework of this study is constructed with respect to Ansoff Matrix. While determining the effects of strategic networks on its business and market strategy tools both market, product development and market, product diversification strategies are considered. As market penetration is a strategy of growth in present market with present products, it is not discussed in this study. While there has been growing attention paid to understand the source of

the market power such as external industry sources or internal resources and capabilities, less attention has been paid to firms' relationships. Different from other researches we highlight the idea that the strategic implication of a network for the firms embedded takes its importance regardless with its network modalities (qualities). We have a very interesting research question: how network position affects strategy in an organizational network.

### **Social Networks**

A social network is a map of specified ties, such as friendship, between the nodes being studied. The nodes, to which an individual is connected, are the social contacts of that individual. Network theories which are also defined as relations constructed by independent nodes system (Wellman, 1988) analyzes inter-personal relations, even the characteristics of these relations. Network theories work using organizational relations in all organizational fields. Organizational network theories are comprised of studies on the characteristics of relational edges of organizations (Granovetter, 1973; Freeman, 1977; Burt, 1980), social sedentariness, (Granovetter, 1985), social capital (Burt, 1997a; 1997b; 2000, Adler and Kwon, 2002). In addition to these, some basic perspectives have been obtained, analyzing the relations of nodes in organizational networks using some organizational theories and behavioral concepts such as power (Brass, 1984), leadership (Brass and Krackhardt, 1999), work performance (Mehra, Kilduff and Brass, 2001), acquisition of knowledge (Tsai, 2001), maximization of profit (Burt, 1992).

### **Strategic Networks**

Strategic Management researches intend to differ why firms differ in their conduct and profitability. Prior research mostly explained it with autonomous entities, competitive advantage or internal resources and capabilities. On the other side, with economic conditions or alone, social factors may influence firms' profitability. In understanding organizational life, especially in comprehending organizational similarities and change, examination of social networks seems to be an acceptable method (Stevenson, 2000). Network theories work by using organizational relations in all organizational fields. Organizational network theories are comprised of studies on the characteristics of relational edges of organizations (Granovetter, 1973), social sedentariness, (Granovetter, 1985), social capital (Coleman, 1990; Burt, 1997a; 1997b ;). In addition to these, some basic perspectives have been obtained, analyzing the relations of nodes in organizational networks using some organizational theories and behavioral concepts such as power (Brass, 1984), leadership (Brass and Krackhardt, 1999), work performance (Mehra,

Kilduff and Brass, 2001), acquisition of knowledge (Tsai, 2001), maximization of profit (Burt, 1992).

While nodes are settled in the network structure, relations of the network sometimes limit the node; while at other times provide some possibilities. If the nodes are not limited by the network, this shows that the particular node is in a position which is relatively advantageous. Recent researches mentioned that the networks of relationships in which firms are embedded also influence their conduct and profitability (Gulati, Nohria and Zaheer, 2000; Dyer and Nobeoka, 2000 and Baum, Calabrese and Silverman, 2000). More interesting approach is used by Gulati and others (2000) to the groups of firms labelling as “strategic networks”. They highlight the idea that “the strategic networks potentially provide a firm with access to information, resources, markets and technologies with advantages from learning scale and scope economies, and follow firms to achieve strategic objectives, such as sharing risk and outsourcing value chain stages and organizational function “(2000). So, strategic networks can be defined as embedded firms’ inter- organizational ties which are of strategic significance for the firms entering them. In accordance with network theory, we may define the firm’s network relationship as a source of both opportunities and threats. In summary, the firms’ networks enhance its strategic importance.

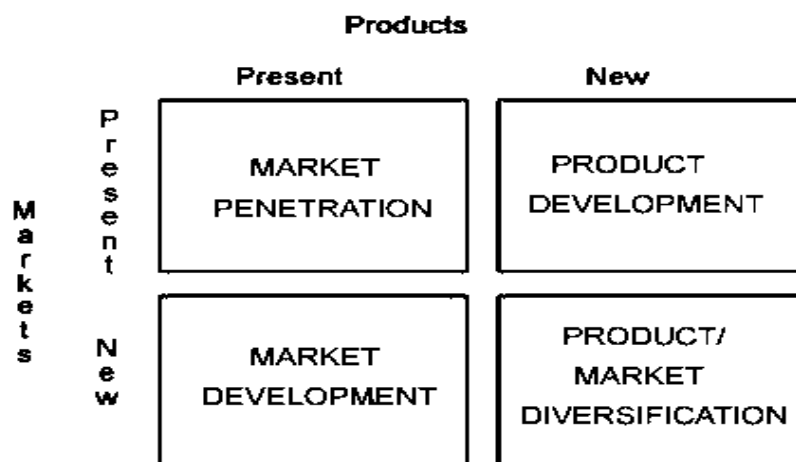
Business strategy (also known as *competitive strategy*) is concerned with how a firm competes within a particular market. On the other side, corporate strategy is a bit different from it. The distinction may be summarized as follows: corporate strategy is concerned with *where* a firm competes; business strategy is concerned with *how* a firm competes. Father of corporate strategy Ansoff identified a matrix which provides a simple classification of decision making. It is not a theory but it is just a descriptive set of categories. Ansoff (1965) developed a new classification of decision-making, partially based on Alfred Chandler's work, *Strategy and Structure* (1962). Ansoff's decision classification became known as *Strategy-Structure-Systems, or the 3S model* provides a popular tool for organizations that aim to understand the risk component of various growth strategies, including product versus market development, and diversification (1965).

Of the four strategies given in the matrix, market penetration requires increasing existing product market share in existing markets. In another words, when companies enter markets with their existing products or services it is called market penetration. Market development requires the identification of new customers for existing products. An organization's current product can be changed improved and marketed to the existing market. The product can also be aimed to another customer segment. Either way, both strategies can lead to additional earnings for the business. Product development requires developing new products for existing customers. An

organization that already has a market for its products might try and follow a strategy of developing additional products and aimed at its current market. Even if the new products are needed not be new to the market, they remain new to the business. Product or market diversification requires new products to be produced for new markets. When companies have neither previous industry nor market experience this strategy is called unrelated diversification. On the other side related diversification can be expressed how companies stay in a market with which they have some familiarity.

The research design of this study is constructed in accordance with the Ansoff Matrix. While determining the effects of strategic networks on its decision making tools market, product development and market, product diversification strategies are considered. As market penetration is a strategy of growth in present market with present products it is not discussed in this research.

Figure 1: Sample diagram - an example of the Ansoff Matrix



This research intends to define not only the form of inter-organizational ties of a retailer network, but also the strategies implications of this network with respect to the model of Ansoff's matrix. In particular, different from other researches we highlight the idea that the decision making process of network for the firms embedded takes its importance regardless with its network modalities (qualities). Moreover within this research, multiple effects of network modalities such as both being situated at center and spanning structural holes is taken into consideration when firms conduct and profitability is defined.

## **MODEL OF BRAND NAME MANUFACTURER AND RETAILER: SIMIT SARAYI**

Since 2002 “Simit Sarayi” (Palace of Simit) Food Industry, a Turkish contractor, has manufactured and serviced “simit”, one of Anatolia’s traditional food. Until then, simit used to be eaten standing up, consumed in an unhealthy manner, and then, with a new business model, it was transformed into a product eaten by sitting down.

The history of Simit goes way back to the reigning times of the Ottoman Empire in the Anatolia region. Simit makers have united for the first time at 1910 and joined “The Association of Bread and Pastry Makers”. With the increase of fast-food trend that increased in the 90s, Turkish traditional food, simit began to struggle for its existence. Serving at 128 stores at present time, “Simit Sarayi” is the first local chain store in a “bakery-café” format serving traditional simit and baked goods at modern and enjoyable settings. Undoubtedly simit is a great taste and it has a distancing taste that unites everyone.

In a very short period of time, Simit Sarayi which is a kind of network retailer showed significant business growth. Products of Simit Sarayi are now sold at more than 50 sales points, including Greece, Holland, Germany and Saudi Arabia.

### **Product, location and history**

At Simit Sarayı along with classical simit, they also serve simit filled with kasar cheese, with sudjuk, sudjuk-kasar and kasar-olives combinations all day long that are freshly baked. Within the menu they also serve some exclusive Turkish pastries and baked goods such as “Acma”, “Pogaca”, “Catal” and raisin buns and Simit Sarayı original recipe orange-yogurt scones, biscuits with Tahini (crashed sesame paste) and many other selected cake varieties. Along with snack food, their menu also includes special wraps, pita bread sandwiches, “Borek” and sandwiches; as well as other enjoyable products such as puddings and cakes. With their rich product range, they address breakfast needs with unique tastes such as simit and bread served in the mornings, salads, wrap and toasts for lunch, coffee and accompaniments and sweet pastries in the late afternoons we accommodate all the meals in a day. At Simit Sarayı there is an appropriate product whether as a finger food, a fulfilling meal or snacks for pleasure alone.

“Simit Sarayı” has explained its purpose about its location as “Simit Sarayı is everywhere”. In regardless with this, for the last ten years they are on main avenues, in the bazaars, anywhere where life is at its busiest. In order to add new locations to join their overseas stores launched in Holland and Mecca, they are in negotiation with approximately 35 countries in the world including the USA, Austria, Greece, and Saudi Arabia.

Simit Sarayı was launched as an innovation in 2002. After opening of their first store in Mecidiyekoy-Istanbul by applying a new business model, they transformed their organization

where a product eaten by sitting down. In a very short period of time, Simit Sarayı showed significant business growth. With the opening of their first store in Mecidiyekoy-Istanbul, Simit Sarayı had launched the first chain store pastry-café in Turkey and has been an establishment working with all its might for simit, one of Anatolia's traditional food, to gain the value it deserves and has also been the carrier of the banner of flavors to introduce some of our traditional tastes to the world. Expanding rapidly in Turkey and overseas, Simit Sarayı has succeeded becoming one of the most popular modern cafes serving their unique and delicious products which are prepared under hygienic conditions in the one and only simit factory in the world.

With a mission of becoming one of the most expanded food chain in the world, Simit Sarayı is serving to over 30.000 people a day a rich variety of products prepared at their integrated production plant, supported by a powerful cooling fleet and over 3000 employees. Their vision is to make "Simit Sarayı" a world brand through their innovative approaches. With its innovative products and business approaches and with the growing pace demonstrated in the country and overseas, Simit Sarayı is on its way achieving the goal of serving simit to the entire world.

## **IMPACT OF NETWORK MODALITIES ON STRATEGIC DECISIONS: A NEW MODEL PROPOSAL**

While nodes are settled in the network structure, relations of the network are important. Using network concepts with respect to understanding firm conduct and profitability provides a valuable explanation. Network position provides its node some advantages like a power of bargaining, a possibility of having more effect on other actors, and a situation of attracting the attention of other nodes. The model of this study is based on the questions of how strong and weak edges affect the market or product decisions-choices of the firms? What is the importance of structural gaps in these strategic decision changes? What is the contribution of those organizations which are relatively more centrally located than others? This model evaluates the relationship between the modalities of retailer network and its strategic decision making process. This model also analyzes which network characteristics are more influential in these strategic choices.

### **Strong and weak ties**

In the social network if the nodes can create short connections with the other nodes, or a node can be reached by the other nodes in the social network this shows that this node has stronger edges. Granovetter (1973) has pointed out that strong edges have been mentioned in the small and the well-defined groups while telling the inter-organizational relationships in most networks.

The weak edges have been stated to be seen in cases where the social structure is not well defined in the inter-groups relationships.

While explaining the strategic networks the importance of network modalities such as the strength of connection takes into consideration. For example, strong ties may enhance the likelihood of oligopolistic coordination more than weak ones (Gulati and others, 2000).

### **Being situated at central or peripheral**

The central position of the node in the organizational network has been evaluated together with his close relationships. If the node has more connections in the social network compared to the others, this shows that this node is in an advantageous position. The node that has many edges has alternatives in meeting the needs, and in this sense, his dependence on to the other organizations. Brass (1984) mentions that being in the central position in the network organizations is important in terms of reaching and getting the critical sources. The nodes who are in a more central position compared to the other organizations does the information exchange relatively more easily (Hanneman, 2001).

When explaining the firms conduct and profitability, therefore, a heightened awareness of strategic networks in which firms are situated becomes central rather than peripheral is important.

### **Spanning structural holes**

One of the powerful roles that networks play is to bridge local and global. This explains how simple processes at the level of individual nodes and links can have complex effects that ripple through a population as a whole. The weak connections of the organization groups in the network are called as gap (Burt, 2002). The structural gap covers the relationships (edges), and the possible edges in the network, and so, they are mentioned as the position providing the nodes with competitive advantage (Burt, 2000). In regardless with this, taking the role of brokerage may be another implicit factor in determining the market and product developments, penetration or diversification. The benefit that this brokerage role provides in the organizational network constitutes the social capital.

Granovetter (1973) states the strength of the weak edges; Freeman (1979) the brokerage role, and Burt (1980) the structural gaps in the network, and they feature this advantage caused by the established relationships in the network of the organizations. In the social network, the legitimacy of the organization focused in the social capital that they gained by their brokerage positions is featured (Burt, 1992).



## New Model Proposal

When we look at the quality of the networks which are resulted from the inter-organizations relationships in the social network, it is seen that these modalities are, in fact, in relation with the other network modalities. During the impact of the social network structure on the organizational field is being searched, making analyses on only one of the modalities (qualities) of the network may cause to reach different results in understanding differences/changes in the field. One of the main reasons of this is that organizations at organizational network can simultaneously take part in several advantageous positions (Kilduff, Tsai, 2003, 28 -32, Ozkan-Canbolat 2010). The other is that edge particulars on organizational networks are related with each other (Brass, 1984, Ozkan-Canbolat 2010). At this point, it is useful to evaluate many advantageous positions within the social network of the organizations together in analysis of network. In this research, the joint-cross effects of the modalities of the network structure which have been explained.

Confronted to us, we need to be able to distinguish between different levels of strength in the links of a social network. We deliberately refrain from trying to define "strength" precisely, but we mean it to align with the idea that stronger links represent closer friendship and greater frequency of interaction. In general, links can have a wide range of possible strengths, but for conceptual simplicity and to match the friend/acquaintance dichotomy that we're trying to explain we'll categorize all links in the social network as belonging to one of two types: strong ties (the stronger links, corresponding to friends), and weak ties (the weaker links, corresponding to acquaintances). We say that the span of a local bridge is the distance its endpoints would be from each other if the edge were deleted (Groneveter, 1973). In the social networks, the node takes part among the other nodes, and provides their relationship, or conciliates, and provides structural advantage within this concept. Because the nodes in the network gain much information about this market while spanning the structural gaps, and hold the control of the network communication in hand. The question is if we have a purely local, interpersonal distinction between kinds of links; whether they are weak ties or strong ties as well as a global structural notion whether they are local bridges or not. If two people in a social network have a friend in common, then there is an increased likelihood that they will become friends themselves at same point in future (Rapoport, 1953). This future friendship can be satisfied with local bridge which is involved in weak ties. So, if there are a sufficient number of strong ties in whole network, the local bridges in a network necessarily weak ties. Burt (1997b) says that the managers who span the structural gaps are stronger, and that they have the competence to control the projects created with the other groups. Confronted to us it has a great importance that the network structure has strong edges in the spread of new ideas which may raise awareness in the organizational field. Because the valuable knowledge and benefits which

are gained by the brokerage roles in the network can only be spread by the other organizations thanks to the edges closure (strong) (Burt, 2002). The organization in which the node takes place has the edges closure is important in that the additional acquisition gained by spanning the structural gaps is realized in the network. However, the organization in the central position is the one which has generally the close edges in the social network (Hanneman, 2001). To tell with a different expression, while making a connection with many nodes in the social network, if the node does this with only the local neighbors, and does not expand his connections over the entire network. It is important in being revealed and being spread of the new information by the node that the indirect edges from all the other organizations in the organizational network are brought forward for discussion, because the new ideas may have the opportunity to live in the weak networks caused by these indirect networks (Burt, 2002). Beyond this, in the acquisition and spread of the information, the weak networks provide the organizations with advantage compared to the strong edges (Adler and Kwon, 2002). Joppke (1993:56) mentions the importance of political and institutional sources in the organization's success, and points out the weak edges in aspect of the change in the society and in emerging of the groups and the elites supporting this change. While the organizations in the network have to be in conformity with the political environment in the field, the loose-edged structures provide cost efficiency especially in the spread of the coded information (Hansen, 1998). Stevenson (2000) points out that the members of the network which are situated at periphery have a voice as much the ones staying at the center have, and says that they have to work harder, and they decided many strategies in order to keep their activities in terms of social context. These organizations, especially the local ones, which have weak edges with the others, make more and shorter way. Thus, more men can be reached by the weak edges, and this shorter and more edges are preferred by the other nodes while the innovations are being adopted (Granovetter, 1973). Being the reason of these many preferences centralizes the position of the peripheral ones in the organizational structure. Granovetter (1973) sees the weak edges which are thought to create distance in the network relationships as a necessity in gaining individual benefit, and in integration of them with the society.

*Hypothesis 1: The members of network which are situated at periphery, having weak edges and having ability to span structural holes adopt product variation based strategies in present markets.*

In the social networks where the centrality degree is high, the nodes cannot get the ground to acquire information and there will be lack of information and problem in decision making. In this sense, there emerge differences between the nodes that are central and peripheral in the

network. Krackhardt and Hansen (1993) state that the central nodes have difficulty in spreading their ideas to the periphery ones, and argues that the peripheral nodes cannot establish sufficient ground, and not get close relationships with the centre. If the central nodes in the social networks get in contact with the nodes with whom the peripheral nodes get in touch much, this shows that they are at the centre (Burt, 2004). In this sense, as the communication of the other node increases, the centrality degree of the focused node will also become strong. When the relationships of the central and the peripheral organizations with each other are considered, the weak relationships and the structural gaps gain importance, too. The peripheral nodes span the gaps by their structural advantages, and thus, they have more tendencies to express their ideas, and to share them with their colleagues when compared to the central ones, because the peripheral have ideas to get in contact with the central, and they show continuity in producing these (Burt, 2004). These differences in the information and the organizational practice ideas gain importance when the members of the network are structured in different field.

When the nodes in the organizational network are examined, it is found that the ones on the either side of the structural gaps are not aware of the other one, but they don't or could not pay attention to organizational activities of the others. The nodes which are a kind of bumper, and span the gaps, enable the spread of the information and the organization's practices by taking place between the organizations having two different information and activities, and so, they make benefit within this meaning (Burt, 2000). The individuals who can span the structural gaps lead to the change thanks to their advantageous positions in finding and developing the good ideas (Burt, 2004). These nodes, at the same time, holds the control of the project which they formed by gathering the organizations at the both side of the hole. Granovetter (1973; 1983) points out the effect of these edges in emerging and spreading of the information in the social network in cases where the edges between the nodes are not strong (if there emerge gaps). Because the structural gaps, that's, the loose edges or the ones not repeating each other, create the inter-group relationship opportunities, and this results with the development of the outer social capital (Adler and Kvon, 2002). The more structural gaps there are in a network, the more chances to create social capital occur (Burt, 1997a). Arguing that the value of the social capital which is acquitted from the structural gaps in the social network is in relation with the similarity of the field (sector) and the firm. Burt (1997a) states that this value increases in the high organizational degrees where there are a few similar (variety) workers. So if the differentiation in market structure is considered as there are differences with new market and the new firm spanning structural holes decrease its value. Burt (2004) states that the ideas and the behaviors are more homogeneous when being with the groups than being between the

groups, and says that the organizations which can create edges with the groups are more inclined to think and behave alternatively.

*Hypothesis 2: The members of network which are situated at periphery, having weak edges and having not ability to span structural holes adopt market variation based strategies with their present products.*

If the organizations have many relationships in a society-sector, and they could establish many edges, they can create direct relationships with the other organizations. And the other organizations wish to get in contact with them, and in this sense, the organization becomes an esteemed and respected organization. Freeman (1979) points out the importance of the distance and the degree of the organizations' positions in the society in terms of the homogeneity and the heterogeneity of the group. In the networks where the uncertainty is low, and the dangerous situations are subject, the groups are known to be more central (Argote, 1989). Because the successful (advantageous) rules have been imitated in organizational networks more often than others, in such social networks, the peripheral organizations get the ideas of the central ones, and are affected by them. The bandwagon effect (Abrahamson and Rosenkopf, 1993), which assumes that the ones who decide to adopt the innovation, does this selection by not basing the technical factors, but that they do this as it is selected by everybody, explains the imitative movements of the viewers. The viewers, who want to get competition advantage like opening a new franchisee in new area, prefer the way to imitate the organizations which are successful in this matter, by the worry of adopting the generally accepted behaviors. The organizations with high centrality degree have been seen as the organizations, which have voice, which affect, and imitate. That the inter-organizations edges in the social network are direct or indirect, and these edges are embedded in each of them have caused the brokerage and strong status to be active while evaluating the centrality degree of the organization. For example, the organizations with relatively high centrality degree can reach many organizations since they have relatively more edges, and at the same time, they can conciliate between the other nodes that don't have edges with each other (Brass, 2002). Such esteemed organizations being among the nodes that don't have edges with each other, being reliable and confided, does the control of the source flow in the sector. In this context, such mediation in the centralization gives them chance to span the structural gaps (Burt, 1992: 121-125). And this increases the possibility of setting off the change by being reached of the new information by the central organizations.

*Hypothesis 3: The members of network which are situated at central, having strong edges and having ability to span structural holes adopt new product variation based strategies in new markets.*

*Hypothesis 4: The members of network which are situated at central, having strong edges and having ability to span structural holes adopt market variation based strategies with their new products.*

## **RESEARCH METHOD**

### **Analysis Level of the Study**

It is known that inter-organizational economic relations are embedded within social relations in the network (Granovetter, 1985). The model of this study is based on the questions of how strong and weak edges resulting from inter-organizational relations affect the strategic decision of firms embedded in network; what is the importance of structural gaps and what is the contribution of those organizations which are relatively more centrally located within the field to these strategic decision changes. We have a very interesting research question: how network position affects strategy in an organizational network. This model also analyses which network characteristics are more influential in this change. Our analysis level in this study is inter-organizational relations.

### **Design, Field & Sampling**

While explaining the relationship between organizational network modalities and strategic advantage of these firms, Simit Sarayi as explained before, is selected for assembling purposive network. The sampling frame consists of 79 firms. Unfortunately there would not be annual reports available for all 79 franchisees or that there would be much useful data in these for the purpose. So information about the companies has been obtained from, Simit Sarayi Incorporate and its own webpage. "Full network method" that is mostly used in observing and catching of the networks has been selected as data collection tool. It requires that information is collected about each actor's ties with all other actors (Hanneman, 2001). In another words, this method takes a census of ties in a population of actors, rather than a sample. In this research, we need to collect information about ties between all pairs so full network data give a complete picture of relations in the population.

Variables which are determined for firms' strategic advantage were obtained in accordance with Ansoff (1965) strategy matrix. In this study firms' market and product development strategies, market and product diversification strategies determined as dependent

variable. Organizations' position whether central or peripheral, their strengths of ties and their ability to span structural holes have been selected as independent variable. Firms' competitive advantage strategies are determined in regardless with product and market development of the franchisees of "Simit Sarayi".

In this study, past studies have been tried to be examined by building binary network matrix. In social network analyses, the most important term is socio-matrix. While developing a binary network matrix entrance year of franchisees is determined. A binary socio-matrix has been acquired by giving 1 if the franchisee enters network with the franchisee at the same year and following years and by giving 0 otherwise. The qualities of the edge that we determined as the independent variable through the data got from the UCINET software program. With this program, ties spanning the internal structural holes; central-periphery relation edges and strength of ties have been acquired.

### **Data Analysis Approach**

Actors who have more ties to other actors may be advantageous positions. Because they have many ties, they may have alternative ways to satisfy needs; hence they are less dependent on other individuals. Because they have many ties, they may have access to, and be able to call on more of the resources of the network as a whole. So, a very simple, but often very effective measure of an actor's centrality and power potential is their degree. Freeman (1979) developed basic measures of the centrality belong to actors based on their degrees. Degree centrality of Freeman (1979) is used in order to measure the centrality in this study. It can be important to distinguish centrality based on in-degree from centrality based on out-degree. If an actor receives many ties, they are often said to be prominent, or to have high prestige. That is, many other actors seek to direct ties to them, and this may indicate their importance. Actors who have unusually high out-degree are actors who are able to exchange with many others, or make many others aware of their views. Actors who display high out-degree centrality are often said to be influential actors (Hanneman, 2001). In this research, as the retailer network franchisees are influential actors-nodes, Freeman degree-centrality is used and "out-degree" measurement is selected while calculating central/peripheral variable.

Degree centrality measures might be criticized because they only take into account the immediate ties that an actor has, or the ties of the actor's neighbors, rather than indirect ties to all others. One actor might be tied to a large number of others, but those others might be rather disconnected from the network as a whole. In a case like this, the actor could be quite central, but only in a local neighborhood. Closeness centrality approaches emphasize the distance of an actor to all others in the network by focusing on the distance from each actor to all others.

Depending on how one wants to think of what it means to be "close" to others, a number of slightly different measures can be defined. In determination of the strength of the relation of the organizations with each other within the organizational network, *closeness degree suggested by Freeman (1979) and Coleman (1990)* has been accepted.

If we want to understand variation in the behavior of individuals, we need to take a closer look at their local circumstances. Burt emphasized and popularized term "structural holes" refers to some very important aspects of positional advantage-disadvantage of individuals that result from how they are embedded in neighborhoods. Burt's (1997b) formalization of these ideas, and his development of a number of measures has facilitated a great deal of further thinking about how and why the ways that an actor is connected affect their constraints and opportunities, and hence their behavior. In measurement of the structural holes, *betweenness index suggested by Burt (1997b) and Freeman (1977)* has been accepted. The fundamental idea here is that the ways in which individuals are attached to macro-structures is often by way of their local connections. It is the local connections that most directly constrain actors, and provide them with access to opportunities.

While determining the dependent variable, market and product development-variation are taken into consideration. Franchise network market power has been selected as one of the dependent variable in the study. In establishment of this data, 2 criteria are taken into consideration. One of them is market power of the firm comes from its embedded network and the other is comes when one of the franchise of the retailer network opened in a new area such as city, region or new country. In accordance with these when obtaining "franchise network market power" data, we consider in which year the company enters the retailer network.

The numbers of the franchisees which entered network that year or after that year ( $f(x)$ ) have been counted and subtracted from total number of firms to network. Then we divided the total number of firms in the network. This ratio is the firm's network market power value. So the oldest member of the network has the largest network market power.

$$\text{Network market power} = (79 - f(x)) / 79$$

$$F(x) = \sum_{i=2002}^{2012} ai, \text{ } a \text{ is the total number of firm entered the network that year.}$$

$$\text{Network market power} = 79 (1 - ((\sum_{i=2002}^{2012} ai) / 79))$$

On the other side, while calculating the franchise market power we simply argue the same logic but in reverse. This time it is important when the retailer network opens a new franchise in different area or accepts a legitimate license agreement. The numbers of member which entered embedded network that year have been counted ( $F(y)$ ). To get "Franchise market power" index this number is divided by total number of firms in the network. As a conclude

when the retailer network opens a new franchise in different area or accepts a legitimate license agreement in a specific year, we multiply “ network market power value” effect with this new “franchise market power value” and added it to “ network market power value”. Otherwise we accept this value as “0”.

Franchise market power =  $f(y)/79$

$F(y) = \sum_{i=2002}^{2012} bi$ , b is the total number of firm entered the network that year.

As a result:

Franchise network market power =  $f(z)$

$f(z) = \sum_{j=1}^{79} [f(x_j) * (1 + f(y_j))]$

Product market index has been chosen as second dependent variable in this study. While obtaining this index we simply focused on changes in product quantities. First of all, from 2002 to 2012 we obtained numbers of sub-groups offerings of Simit Sarayı franchises. We mentioned these sub-groups such as simit, other salty pastries, cookies, cakes, coffees, teas, classic drinks, and cold drinks. The numbers of quantities belongs to these sub groups in a specific year have been counted, then all the quantity of sub-groups added in accordance with their importance of sales for retailer network. Sub-groups total amount is multiplied with its weighted average then added and expressed as product index of that year. Next we look when the franchise entered its network. We simply determined that year index to the company as a value. Quantitative methods have been selected as analysis method. So for determining the network modalities a computer software program called as UCINET has been used during the analyses of the social network. The purpose of the utilization of this program is to determine basic and sub features of the organizational network based on the relations among the nodes.

In this study, decision tree analysis is selected for explaining the model. CRT method, classification and Regression Trees have been used. CRT splits the data into segments that are as homogeneous as possible with respect to the dependent variable. A terminal node in which all cases have the same value for the dependent variable is a homogeneous, "pure" node. The CRT growing method attempts to maximize within-node homogeneity. The extent to which a node does not represent a homogenous subset of cases is an indication of impurity. For example, a terminal node in which all cases have the same value for the dependent variable is a homogenous node that requires no further splitting because it is "pure." You can select this method to measure impurity and the minimum decrease in impurity required to split nodes. As the dependent variables are scale, the least-squared deviation (LSD) measure of impurity is used. It is computed as the within-node variance, adjusted for any frequency weights or



influence values. For our data, ranks each independent (predictor) variable according to its importance to the model is important that's why CRT growing method is chosen. In our model we have 4 sub-models where market and product improvements are dependent variables and where network modalities are independent variables. While determining the effects of network modalities on market and product improvements being situated at central/ peripheral variable effect is forced firstly. In decision tree analysis we can force the independent variable into the model as the first split variable (the first variable used to split the root node into child nodes). Because centrality measure in network analysis simply defined as the beginning and the most effective measurement then other modalities are taken into consideration. While determining the network modalities' effect on product improvement we intend to explain this influence with and with out to market improvement. So "product index variable" is chosen as influence variable in Decision Tree Model. The influence variable defines how much influence a case has on the tree-growing process. Cases with lower influence values have less influence; cases with higher values have more. Same procedure is used while determining the network modalities effects' on market improvement but this time product improvement is taken into consideration as an "influence variable".

## EMPIRICAL FINDINGS

The relation of network qualities with change in strategic decisions is expressed in the context of the effect of three different networks modalities in this research. Differences in the context of the change in strategic decision behaviors with respect to product and market have been explained by strengths of ties, structural hole and central/peripheral position of business groups. As explained before, while determining the product improvement we explained the network modalities 'effect within and without the market improvement' in regardless of our model.

Figure 2 shows only the network modalities effect on product improvement and it shows basically franchisees which are located relatively at peripheral part of the retailer network (63, 3% of the network) have risk to use product based strategies.

The sub-model determines that franchisees which are located relatively at peripheral part of the retailer network (whose network centrality less than 50) with weak ties (whose network strength of ties is less than 2,072) and low level of ability to span structural holes (whose degree is less than 0, 4165) have more risk to variety their products

Furthermore, franchisees which are located relatively at peripheral part of the retailer network (whose network centrality less than 50) with strong ties (whose network strength of ties is higher than 2,072) have also more risk to use product variation strategies.

Figure 2: Network modalities effect on product development decision making strategies

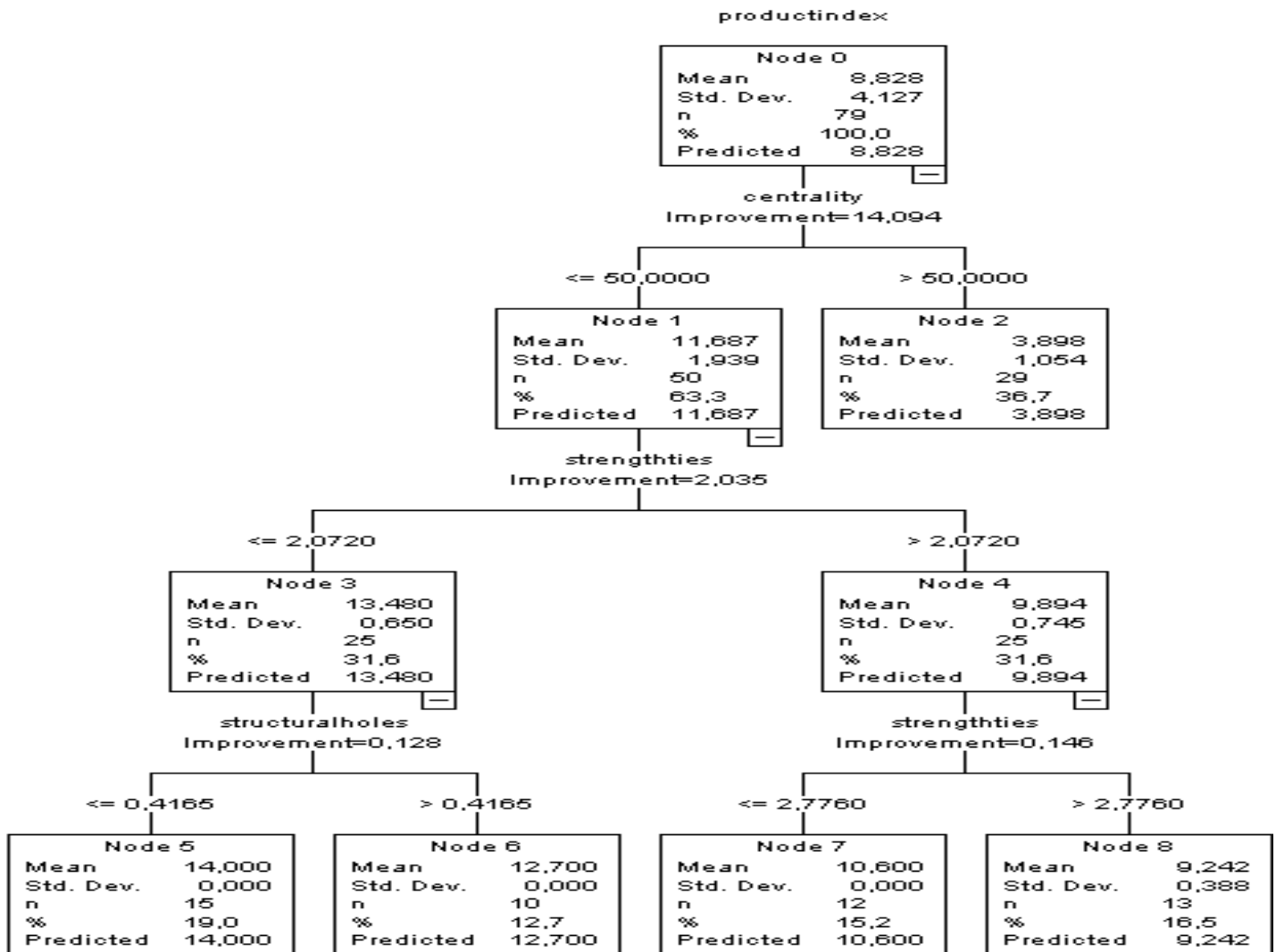


Figure 3 show the network modalities effect on product improvement with the influence of market based strategies. It shows basically franchisees which are located relatively at peripheral part of the retailer network (62% of the network) have risk to use product variation strategies when market based strategies also are considered. The sub-model determines that franchisees which are located relatively at peripheral part of the retailer network (whose network centrality less than 48, 5) with weak ties (whose network strength of ties is less than 2,072) and low level of ability to span structural holes (whose degree less than 0, 4155) have more risk to variety their product strategies.

Furthermore, franchisees which are located relatively at peripheral part of the retailer network (whose network centrality less than 50) with strong ties (whose network strength of ties is higher than 2,072) have also risk to use product based strategies but not as much as the weak ones (% for strong ties is 30, 4 where % for weak ties 31, 6).

Figure 3: Network modalities effect on market development decision making strategies

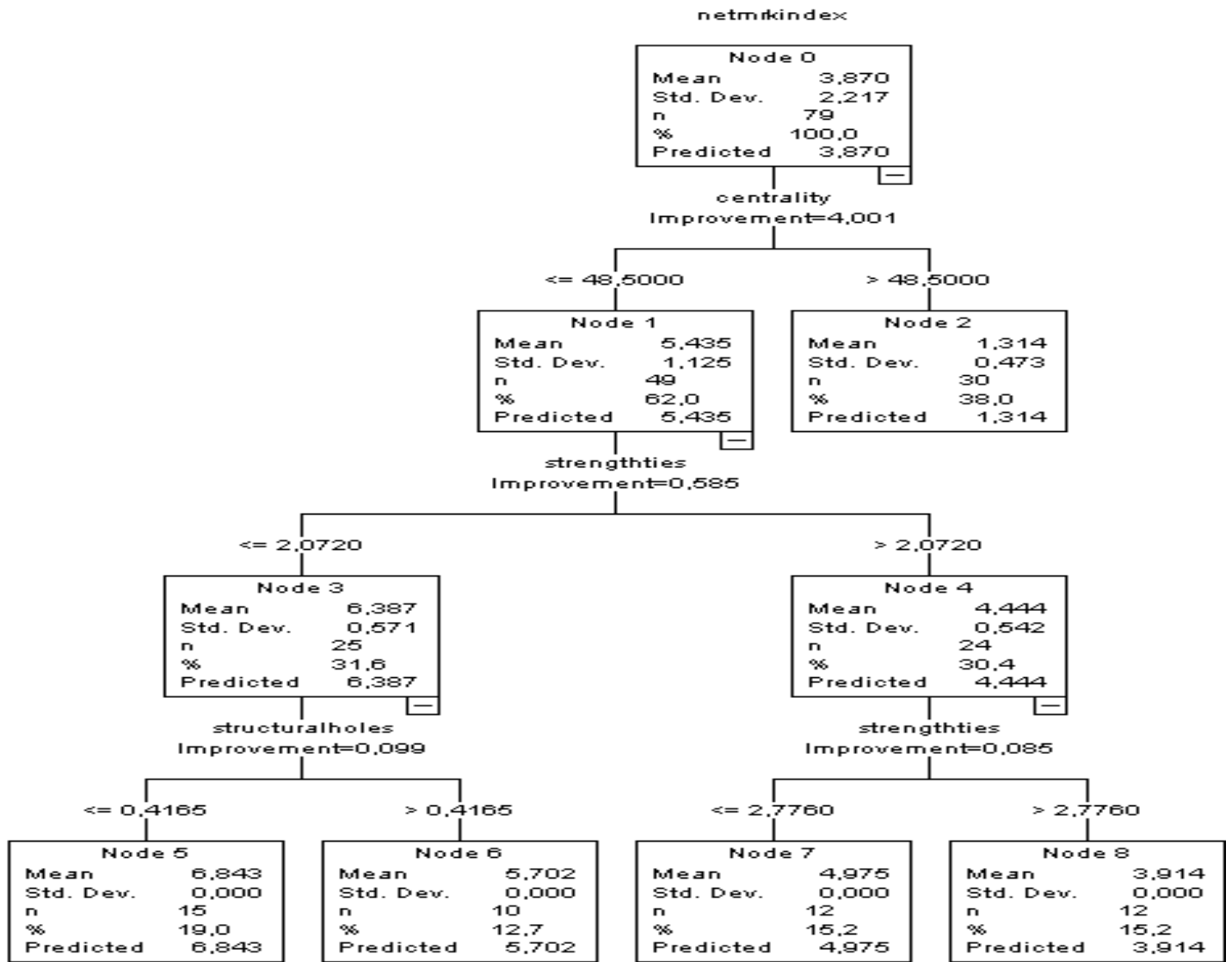


Figure 4 shows only the network modalities effect on market improvement of the franchisees. It shows basically franchisees which are located relatively at peripheral part of the retailer network (62% of the network) have risk to use market variation strategies. The sub-model determines the franchisees which are located relatively at peripheral part of the retailer network (whose network centrality less than 48, 5) with weak ties (whose network strength of ties is less than 2,072) and low level of ability to span structural holes (whose degree less than 0, 4165) have more risk to variety their market strategies. Moreover, franchisees which are located relatively at peripheral part of the retailer network (whose network centrality less than 48, 5) with strong ties (whose network strength of ties is higher than 2,072) have also risk to use product based strategies but not as much as the weak ones (% for strong ties is 30, 4 where % for weak ties 31, 6).

Figure 4: Network modalities effect on market/product diversification decision making strategies

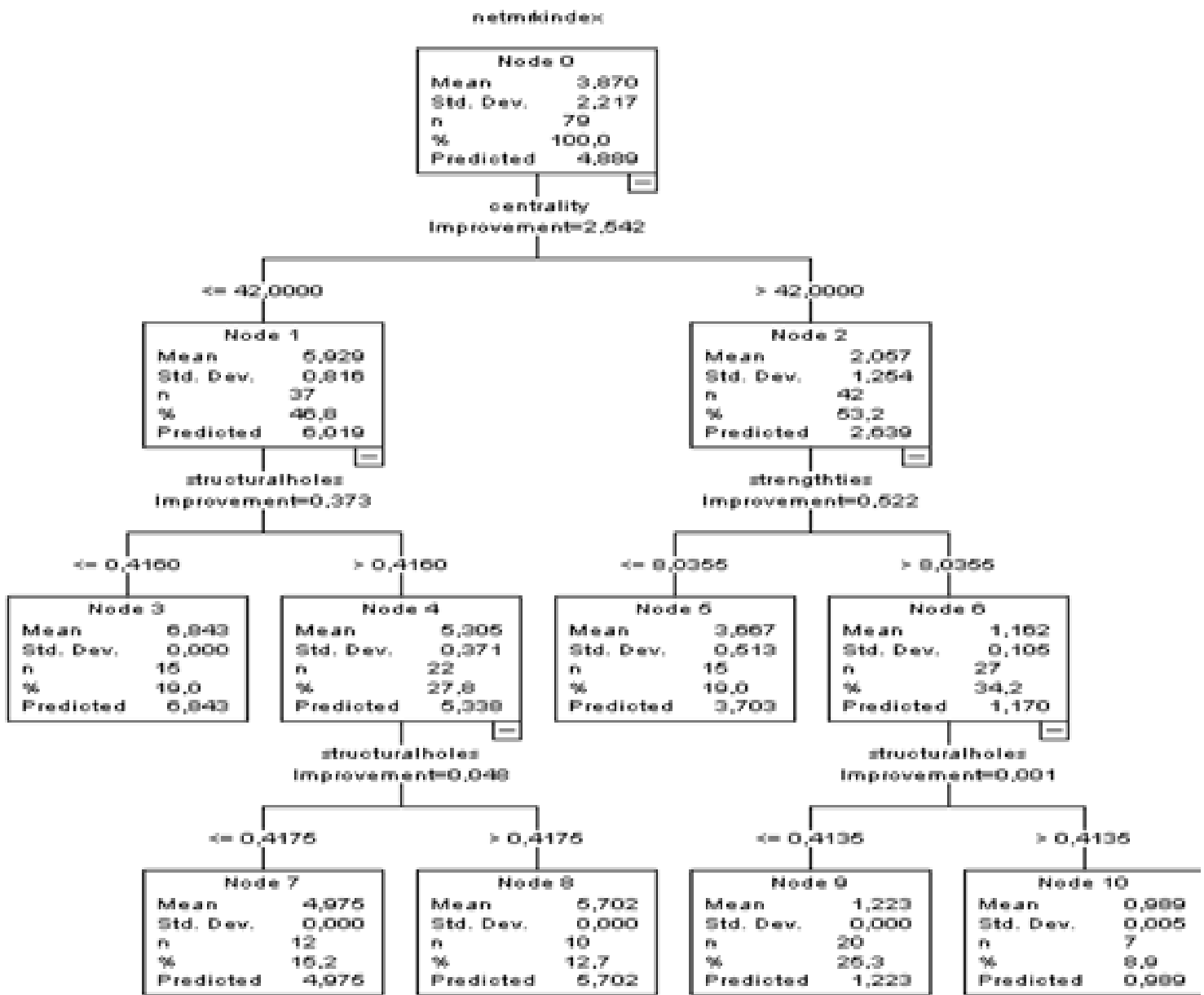
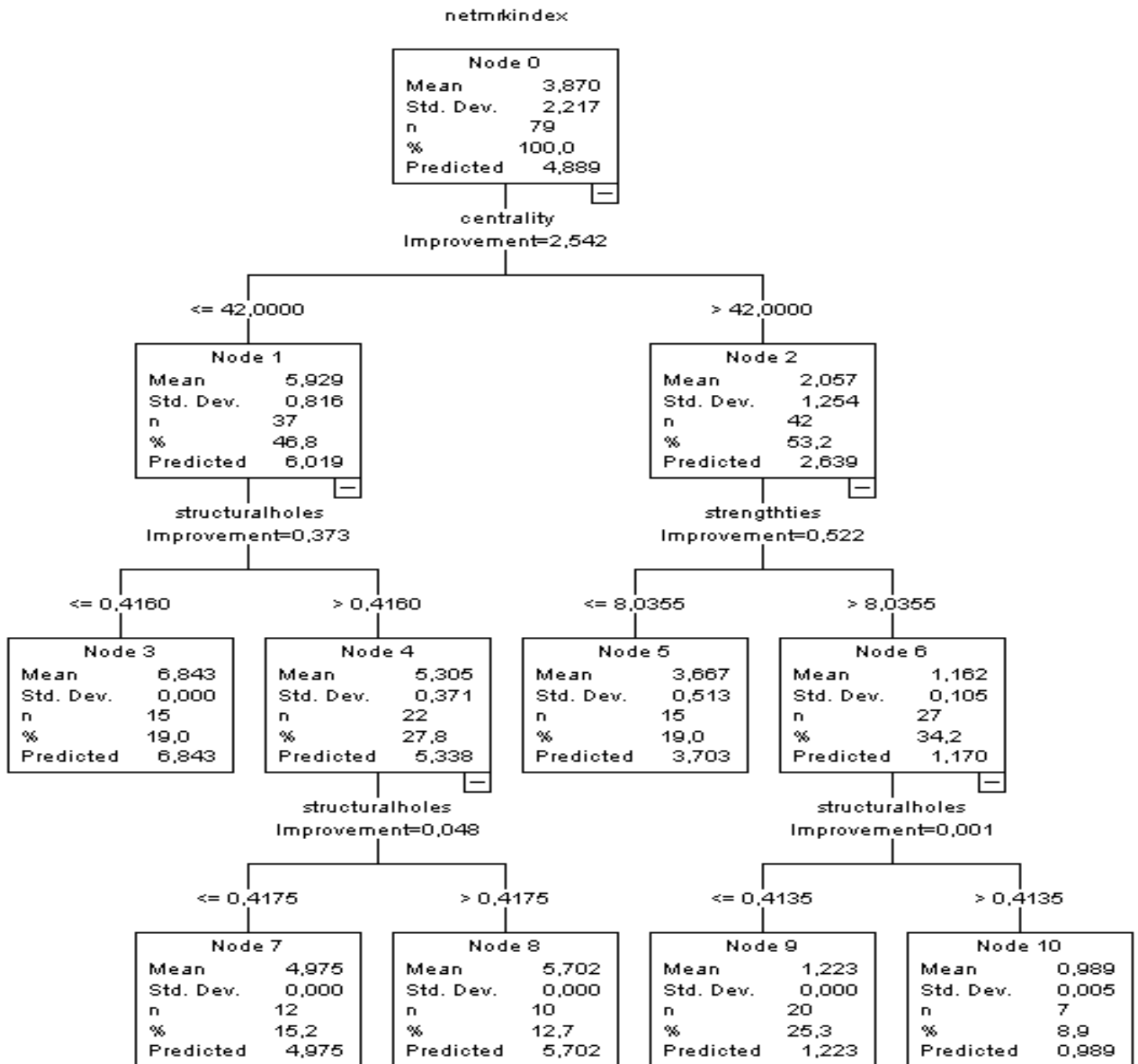


Figure 5 show the network modalities effect on market improvement with the influence of product based strategies. It shows basically franchisees which are located relatively at central part of the retailer network (53, 2 % of the network) have risk to use market variation strategies when product based strategies also are used. The sub-model determines that franchisees which are located relatively at central part of the retailer network (whose network centrality higher than 42) with strong ties (whose network strength of ties is higher than 8, 0355) and low level of ability to span structural holes (whose degree less than 0, 4135) have more risk to variety their markets.

The sub-model 5 shows franchisees which are located relatively at peripheral part of the retailer network (whose network centrality less than 42) are the 46, 8% of the network. The peripheral part of the retailer network has lower risk to use market based strategies when it is compared to central part of it.

Figure 5: Network modalities effect on market based strategies w.r.t product based ones



## DISCUSSION

This research argues that these advantageous positions generating from the settled inter-organizational relations at the level of social network have an impact on the strategic decisions. This paper introduces the important role of networks of inter firm has managed to achieve a high value added competitive advantage.

The relation risk of network modalities with product and market variation strategies is expressed in the context of the effect of three different network modalities on three different strategy behaviors; product development, market development and market/product differentiation. Differences in the context of change in these strategy behaviors have been explained by power of the edges within the social network, ability to span structural holes and central/peripheral position of edges.

Table 1: Summary of Network Modalities and Ansoff's Decision Making Strategies

Network Modalities		Central/ periphery	Strength of Ties	Ability to span Structural Holes
<b>Ansoff's Decision Making Strategies</b>	Product Development	<i>Periphery</i>	<i>Weak</i>	<i>Low</i>
	Market Development	<i>Periphery</i>	<i>Strong</i>	<i>-----</i>
	Product/market Diversification	<i>Periphery</i>	<i>Weak</i>	<i>Low</i>
		<i>Central</i>	<i>Strong</i>	<i>Low</i>

It has been found that when franchisees of the retailer network are situated at peripheral position rather than central with weak ties and less ability to span structural holes, they have more risk to use new products in present markets. In another words, retailer network franchiser may chose its franchisees that are situated at periphery with weak ties and weak ability to span structural holes when it plans to apply product development strategies. Same results are obtained for market development decision making strategies. Franchiser may choose its franchisees that are situated at periphery with weak ties and weak ability to span structural holes when it plans to apply market development strategies. T

he organization in the central position is the one which has generally the close edges in the social network (Hanneman, 2001). To tell with a different expression, while making a connection with many nodes in the social network, if the node does this with only the local neighbours, and does not expand his connections over the entire network, this means he is in the central position; however, he has not strong connections. It is important in being revealed and being spread of the new information by the node that the indirect edges from all the other organizations in the organizational network are brought forward for discussion, because the new

ideas may have the opportunity to live in the weak networks caused by these indirect networks (Burt, 2002). Beyond this, in the acquisition and spread of the information, the weak networks provide the organizations with advantage compared to the strong edges (Adler and Kwon, 2002).

Besides these, if these peripheral firms have strong ties, there may be again more risk in network to use new products in new markets (product development strategies).

If the retailer has decided to apply market or product diversification decision making strategies, it will be beneficial to choose the franchisees that are situated at center, with strong ties and low ability to span structural holes. In this condition the strength of ties gets not important. Burckhardt and Brass (1990) in the study in which technological changes are studied with an evaluation parallel to these results, suggested that the ones who adopt the innovation firstly are more centralized. Brass (2002) points out that organization which take place in a central position and which are interdependent with their dominant coalition relations are seen as strong in the field in political sense. Assumptions of Brass (2002) who suggests that these organizations which successfully build rules, norms and cultural values in organizational field have advantage in acquiring political power are supported by this study.

These results indicate that for retailer networks, the modalities of network differ when “market/product diversification” strategies are taken into consideration. Otherwise, whether market or product development strategies are considered same network modalities may be chosen (peripheral franchisees with weak ties and weak ability to span structural holes).

## CONCLUSION

This study has researched the effect of the network structure among a group of organization. It aims to analyze the effects of networks on strategic management processes and applications so the effect of social factors on the organizational field is expressed.

Within this research firm’s achievement of a high value added competitive advantage is expressed with network modalities. The research design would benefit from clearer focus on the strategic options open to the individual franchiser. Comparison of the results of the studies at the level of wholesale and the results of the studies at the level of the other retailer network in accordance with “network autonomous” will illuminate the future studies.

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