1. Research contributions to understanding franchising

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INTRODUCTION

Franchising is a strategy for cloning a business through the replication of proven business and management systems. It is an increasingly popular method of business operation, providing an effective and efficient means for one enterprise, the franchisor, to expand its existing business and for another enterprise, the franchisee, to enter an industry. It provides ‘the means for merging the seemingly conflicting interests of existing businesses with those of aspiring entrepreneurs in a single process that promotes business expansion, entrepreneurial opportunity and shared cost and risk’ (United States House of Representatives Committee on Small Business, 1990, p. 13).

Franchising has its origins in the exclusive branded distribution arrangements – today referred to as product and tradename franchises – that developed in the United States in the mid-nineteenth century. It was not until the mid-twentieth century that franchising in its contemporary business format mode developed. Franchising pioneers such as Ray Kroc (McDonald’s) and Harland Sanders (Kentucky Fried Chicken (KFC)) realized that comprehensive business and management systems could be licensed as well as the right to use another’s brand in the distribution of a product or service in a territory. Today business format franchising is, in Martin Mendelsohn’s words, ‘a sophisticated business relationship whereby the franchisor provides the franchisee not only with an established branded product or service but with an entire business strategy – an overall image and a method of doing business in accordance with a proven system’ (Mendelsohn, 1992, p. 19).

It has been the same franchising pioneers – McDonald’s and KFC – that have been prominent in the international expansion of franchising to all regions, and most countries, of the world. Both operate in over 120 countries through over 38,000 (McDonald’s) and 20,000 (KFC) outlets and their presence has been influential in providing the catalyst for increasingly vibrant and dynamic local franchise sectors in these countries.

2 *Handbook of research on franchising*

Statistics are elusive but the World Franchise Council suggests that there are today over 40,000 franchise systems worldwide with over 3 million outlets providing employment to over 21 million workers. Three decades ago the US Supreme Court in *United States v Arnold Schwinn* 388 US 365 at 386 (1987) acknowledged that ‘franchising provides significant social and economic advantages to the whole society’. This comment was made in the context of the United States but today resonates internationally. Franchising has revolutionized the distribution of goods and services in most industry sectors and has transformed the retail landscape of most countries.

Given the strong growth of franchising internationally, it is surprising that this business model has not attracted the attention of scholars and educators commensurate with its significance. Universities worldwide provide education in leadership, marketing, strategic management and more. And the global expansion of franchising suggests that both franchisors and franchisees are learning lessons through such educational and hands-on experience. Yet the classroom education and published and electronic materials overwhelmingly address standard business practices associated with traditional formats rather than the franchise model. Very few address the distinctive business-to-business relationship of the franchise contract. Are educational institutions recognizing the benefits to be obtained from the research of franchise scholars, and are they communicating the knowledge compiled to students and practitioners? How much impact might the franchise approach to entrepreneurship and to retailing and service marketing and supply chains have with a more substantial knowledge base?

In this *Handbook*, many of the world’s preeminent franchise scholars present theories, models and empirical findings that expand the field’s body of knowledge. Their chapters contain new insights that add value both to scholars and practitioners. We expect this *Handbook* to have an impact on education as well as practice and to stimulate an increase in franchising research.

THE NEED FOR THE *HANDBOOK*

According to the International Franchise Association (IFA) (2016), the output of franchise establishments in the United States in 2016 exceeded \$674 billion. There were over 733,000 establishments employing 7.6 million people. The European Franchise Federation (EFF) (2015) reported more than 13,627 franchised brands operating through 517,864 franchised stores in Europe in 2014. Australia, a country with a population of 25

million, has 1,120 business format franchise systems operating through over 79,000 outlets, employing over 470,000 people. The total franchise sector turnover was estimated to be A\$146 billion in 2016, according to the Franchise Council of Australia and Griffith University.

Despite the pervasiveness of the franchising globally, little scholarly research has been conducted and published relative to other business models. For some scholars, there may be hesitance to conduct research on franchising due to the perceived lack of journal outlets for their work. At the time of this *Handbook's* publication, there is no business academic journal specifically focused on franchising. The short-lived *Franchising Research Journal* did not receive a sufficient number of submissions to continue publication. There are some journals that actively solicit franchise-focused manuscripts as part of their mission: the *Journal of Marketing Channels* and the *Journal of Retailing*, as examples. Additionally, there are journals for the legal community: the *Franchise Law Journal* and the *International Journal of Franchising Law*. We expect one of the contributions of the chapters in this volume to be the references provided, informing scholars of the wide variety of journals that have welcomed franchising research.

BUILDING ON PRIOR KNOWLEDGE

When Hoy and Stanworth (2003) published their compilation of seminal franchising articles, they acknowledged the growing economic impact of franchisors and franchisees and increasing interest by academic researchers as well as elected officials, regulators, journalists and others. They argued that the readings selected offered insights to both theoretical and empirical issues, providing a knowledge base for evaluating franchising as a model for business development.

The International Society of Franchising (ISoF) has provided a forum for franchising scholars to disseminate their research since 1986. The history of the ISoF was documented by Dant et al. in 2012. Proceedings from past conferences are available at www.franchise.edu.au/home/research/international-society-of-franchising/conference-papers.

In 2003, the first international conference on Economics and Management of Networks (EMNet) was held. A result of that conference was the publication of *Economics and Management of Franchising Networks*, edited by Windsperger et al. (2004). The purposes of the book were (1) to 'emphasize franchising research as a theory-driven field by offering new theoretical perspectives on the degree of vertical integration and the contract design' and (2) to 'present new research results on

knowledge and strategic management issues, international market entry through franchising, influence of country characteristics on franchising, and regulation of franchise agreements' (p. 3). This led to a series of edited books published biannually.

In *The Economics of Franchising* (2005), Blair and Lafontaine added to the body of knowledge. Their goals included examining sources of friction in franchise relationships, investigating regulation and control of franchise relationships in various jurisdictions, and a clearer understanding of franchising as an institutional framework.

The evolution of franchising research can be traced through journal articles that review franchising literature and by the special issues on the topic that some journals have published. In the first category, Elango and Fried (1997) contended that the amount of research conducted on franchising in the prior 20 years was significant and was represented in various disciplines, including economics, law, management, management science and marketing. They claimed that their article was the first major review of the scholarly franchising literature. They classified the research that had been done into four categories with recommendations for future research in each: franchising and society; creation of the franchising relationship; operating a franchising system; and methodologies used in franchising research.

Combs et al. (2004) reviewed theory development, highlighting the fact that franchising has attracted the attention of scholars from different fields. Nevertheless, they considered that new research should be carried out by adapting other theories than the predominant ones (i.e., resource scarcity and agency theory) very often used to investigate franchising constructs. They proposed applying more diverse theories such as upper echelons theory, resource-based theory and institutional theory.

In suggesting future research directions, Lafontaine (2014) observed that franchising papers have been published in journals of various fields such as economics, marketing and more specifically channels of distribution, law, strategy, entrepreneurship, etc. She explained that many areas of research on franchising have not caught the attention of many researchers. These areas include master and multi-unit franchising, differences in the intensity of franchising in various sectors, international franchising and new technologies in franchised chains.

Shane and Hoy (1996) had a perspective different from Elango and Fried (1997). In the introduction to their special issue of the *Journal of Business Venturing (JBV)* on franchising, they noted that franchising was relatively unexplored in comparison to independent entrepreneurship. They felt that studies of franchises could inform scholars about how entrepreneurs manage cooperative relationships that are central to firm

survival. In a follow-up special issue of the *JBV* on franchising, Hoy and Shane (1998) selected articles that focused on factors related to venture success and failure. They viewed the contribution of the issue as taking franchise research beyond the dominant fields of law and marketing. Another franchising issue of *JBV* appeared in 1999. Dant and Kaufmann (1999a) continued the theme of the prior two issues by further investigating the relationships of franchising to entrepreneurship. They quickly followed with an additional *JBV* special issue (Dant and Kaufmann, 1999b), which contained studies from the perspectives of entrepreneurship, law, marketing and sociology. In a special issue of *Entrepreneurship Theory and Practice*, Combs et al. (2011) explained that the articles in the issue built on four decades of research that established how franchising provides access to resources, requires less costly oversight, and results in symbiotic relationships between franchisees and franchisor-owned outlets. They felt their issue took franchising research beyond organizational form, legal contract and distribution channel, and into entrepreneurship topics such as opportunity recognition, team building and strategy.

This *Handbook* reflects the value and significance of franchising. It builds on the body of knowledge accumulated to date and proposes directions for future contributions to scholarship and practice.

PREVIEW OF THE *HANDBOOK*

Chapters are organized into various subjects. Some chapters are primarily literature reviews providing insights regarding the status of research on topics. Others contain empirical studies advancing the body of knowledge. In either case, authors raise critical issues and propose opportunities for further research. The remainder of this section briefly introduces each chapter.

Part I Entrepreneurship

The debate as to the role of entrepreneurship in franchise systems is ongoing. Working from the theoretical underpinnings of agency theory, stewardship theory and the resource-based view, Anna Watson and Lola Dada review numerous empirical franchise investigations of behaviours that fit concepts identified in the entrepreneurship literature. In their chapter, 'Managing Entrepreneurial Tensions in Franchise Systems', they identify evidence of entrepreneurial orientation within both franchisor and franchisee organizations and describe tensions and coping mechanisms

and present numerous opportunities for future research including efforts to differentiate behaviours by industry and to assess national and cultural influences on entrepreneurial behaviour.

The volume of scholarly research on family businesses and franchising is negligible. In their chapter, 'Implications of Family Firms in Franchising', Dianne Welsh and Frank Hoy propose remedying the lack of attention through modifications that extend models designed for examining the franchise model: the Model of Franchise System Development and the Sociological Model. They identify ownership and management succession as critical issues for investigation. This is not simply due to the need for qualified leadership of both franchisor and franchisee organizations, but also due to the constraints of contracts that govern relationships between the parties over long periods of time. Additional topics for research are also identified.

New models of franchising – freedom franchises, quasi franchises and entrepreneurial franchises – are reviewed and categorized by Odile Streed and Gérard Cliquet in their chapter, 'Autonomy in Franchising'. The authors propose that autonomy is overtaking uniformity in the franchisor-franchisee relationship as a result of franchisors increasingly recognizing that reducing rules and authorizing more discretion among franchisees may foster innovation, creativity and an entrepreneurial spirit.

Part II Organizational Forms

The plural form organization – the coexistence of franchised and company-owned outlets in franchise chains – is addressed by Brinja Meiseberg and Thomas Ehrmann in their chapter, 'A Multi-National Investigation of Dual Distribution Structures in Franchising'. The chapter provides an exploratory contribution to empirically grounded investigations into the plural form chains. The authors explore country-specific idiosyncrasies of the plural form phenomenon across three continents based on recent data from over 3,000 German, Australian and South Korean franchise chains, and integrate the empirical findings on observed similarities and differences across countries with central theories and paradigms in franchising research.

The franchise model is dynamic and continues to evolve as both franchisors and franchisees learn through practice. In their chapter, 'Exploring the Growth of Multi-Unit Franchising', Benjamin Lawrence, Cyril Pietrafesa and Patrick J. Kaufmann address a recent evolutionary change – the increased frequency of multi-unit franchising. The authors investigate the incentives for this form of business expansion and describe factors that appear to be incentivizing this practice. They identify numer-

ous directions for future research, specifically calling for studies in other national and regional markets.

Fee structures in franchising relationships give rise to a number of significant issues. In their chapter, 'The Relationship between Initial and Ongoing Fees in Franchising: a Meta-Analysis', Farhad Sadeh and Manish Kacker present a comprehensive review and analysis of prior studies of the fee structure of franchise contracts. The chapter includes a thorough yet concise explanation of how they conducted their meta-analysis. Their findings include contradictions of what might be predicted from agency theory and risk sharing theory. They identify the implications of factors including brand effects, intangible assets and franchisor support on both initial and ongoing fees. They encourage further research into the variations of fees in different business sectors.

Part III Regulation

The regulation of franchising presents many challenges, from the need for regulation to the extent of regulation to the manner of regulation. Robert W. Emerson's chapter, 'Franchising Hard Law and Soft Law', focuses on the third of these issues – the alternative regulatory instruments for franchise regulation. Franchise laws span the spectrum from 'hard law' – typically state prescribed and enforced regulation – to 'soft law', such as the Codes of Ethics developed by national franchise associations which are not binding in the courts. The chapter reviews the range of regulatory strategies, defines hard law and soft law, and assesses their respective advantages and disadvantages in the franchising context.

Most countries do not specifically regulate their franchise sectors, relying instead on underlying laws of general application to all business activity. There is nevertheless increasing interest in franchise regulation throughout the world, not only by the unregulated sectors considering the introduction of a regulatory regime but also by those regulated sectors that must assess the effectiveness of their regulatory regimes. Regulation of the franchise sector presents real and significant challenges. While prior disclosure is widely accepted as the appropriate response to the information imbalance in the relationship, the appropriate strategy for addressing the power imbalance is more complex. It is in this context that there is increasing interest in an obligation of good faith as the appropriate tool to restrain opportunistic conduct and bring equity and fairness to the franchising relationship. Andrew Terry, Cary Di Lernia and Rozenn Perrigot address the role, meaning and effectiveness of good faith in the franchising context in their chapter 'The Obligation of Good Faith and its Role in Franchise Regulation'.

Part IV Franchisor/Franchisee Relationships

Trust is an essential, but often elusive, feature of the franchisor-franchisee relationship. Evelien Croonen's chapter, 'Understanding Antecedents of Franchisee Trust', focuses on trust in franchise relationships. Franchisors typically behave as dominant partners and franchisees frequently feel vulnerable as a result. This chapter summarizes and reviews the literature on antecedents of franchisee trust as knowledge of such antecedents can help franchisors improve the management of their franchise relationships. A major conclusion of this chapter is that knowledge on antecedents of franchisee trust is still fragmented.

Franchising is a unique business arrangement that raises significant issues. The nature of the franchisor-franchisee relationship from both contractual and interpersonal perspectives is explored by Lorelle Frazer and Anthony Grace in their chapter, 'Franchisor-Franchisee Relationships'. They examine the origins of the franchising relationship, the role that each party plays and the dynamics of communication, power and control in franchising relationships. A focus is placed on conflict within franchising relationships and more specifically on types, causes, stages and resolution.

The major research findings on knowledge transfer in franchising organizations are reviewed by Nina Gorovaia in her chapter, 'Knowledge Transfer in Franchising', which addresses the what, why, when, how, who and where issues relating to knowledge transfer. The discussion of these broad issues is facilitated by reviewing state-of-the-art research studies that use theories such as the knowledge-based view of the firm, information richness theory, the value co-creation concept, organizational life-cycle theory, resource-based theory and organizational capabilities perspective. The author argues that the resource-based theory and organizational capabilities perspective could make important contributions to franchising research by highlighting how franchise companies create and capture value from knowledge transfer and knowledge management.

Part V Marketing

The imposition of pricing restrictions by franchisors on franchisees raises issues of resale price maintenance (RPM) which are addressed by Robert Stassen in his chapter, 'Resale Price Maintenance in Franchising: Market Coverage, Company-Owned Stores, and Retailer Dependence'. RPM places either upper or lower limits on the prices charged by retail outlets and is regulated in some environments, but not in others. Stassen examines

the practice of RPM and its effects on franchisor-franchisee relationships, and provides case examples demonstrating its significance on companies and their ability to compete.

The development of informational and transactional websites within franchise chains in Europe is addressed by Rozenn Perrigot, Guy Basset and Gérard Cliquet in their chapter 'E-Commerce Opportunities and Challenges for Franchise Chains'. The authors briefly describe the legal regulations set by the European Union and consider the use of the Internet as a new marketing channel by studying the reasons why franchise chains need to be present on the Internet and under what conditions. They also discuss potential issues related to transactional websites opened by franchisors, such as encroachment problems, and the transactional websites of franchisees, and consider some solutions adopted by various French franchise chains.

Part VI Internationalization

The challenge of ranking 125 countries in the order of their attractiveness for international franchise market expansion is taken up by E. Hachemi Aliouche in the opening chapter in the internationalization section, 'International Franchising: Optimal Market Selection'. The conceptualization of a ranking procedure is the principal contribution for both researchers and practitioners. Aliouche explains how to assess risks associated with the economic, political, legal, regulatory and cultural environments, plus geographic distance. As with every approach, there are limitations. In this case, those limitations set exciting new research opportunities.

The scholarly literature investigating international franchising is diverse in both subject matter and methodology. In 'Internationalization of Franchise Networks', Maria Jell-Ojobor and Josef Windsperger propose four core research areas derived from studies published to date: structural aspects, relational aspects, push factors and pull factors. Their conceptualization accounts for both organizational and environmental conditions that influence internationalization decisions and practices. This approach suggests numerous opportunities for further research.

The dominant mode of international market entry is the focus of 'Determinants of Master International Franchising' authored by Maria Jell-Ojobor and Ilan Alon. They derive multiple propositions from the strategic management and organizational economics literatures. Their analysis identifies strategic, environmental and behavioural factors that influence the decision to choose this form of governance for pursuing penetration into countries foreign to the franchisor's headquarters. Their

conclusions offer practical guidelines for franchisors considering internationalization of their operations.

The extent to which home and host country economic contexts affect the timing of franchisors choosing to enter international markets is addressed by Melih Madanoglu and Gary J. Castrogiovanni in their chapter, 'International Franchising: Influences of Environmental Uncertainty and Munificence on Market Entry Timing'. Specifically analysing United States-based franchisors expanding into Canadian markets, they conclude that franchise organizations do not necessarily follow models previously developed from research on manufacturing firms. They suggest that studies of munificence in host countries offer particular promise for future investigations.

Part VII Performance

In comparison with governance issues, performance issues have received little attention in the franchise literature. Based on the articles with an international scope published in economics and management journals, Magali Chaudey and Muriel Fadairo present previous research focusing on financial or accounting variables linked to performance as well as on non-financial and more qualitative approaches of performance in franchise chains. The chapter, 'Performance in Franchising Networks', concludes by examining the recent focus on ethics or social objectives, and suggests avenues for future research.

A variety of organizational forms can be applied in a retail setting. The chapter by Karine Picot-Coupey, Jean-Laurent Viviani and Paul Amadiieu entitled 'Retail Network Organizational Design and Financial Performance' aims to contribute to understanding the impact that different mixes of organizational forms have on performance in a retail setting. Using the 'exploration – exploitation – ambidexterity' perspective as a broad theoretical framework, the authors investigate a particular aspect of organizational design – the mix of different organizational forms (company-owned units, franchised units and/or shop-in-shop units) – and the relationship of forms with financial performance.

Part VIII Emerging Markets

Asia, the region poised to dominate the global economy, is home to rapidly growing domestic franchise sectors among its diverse economies. Franchising is a relatively new business strategy in Asia – particularly in the developing countries that dominate the region – but is experiencing impressive and sustained growth. The expansion of foreign systems

to Asia has been the catalyst for sector development and governments, entrepreneurs and consumers are becoming increasingly familiar with the concept and its proven efficacy as a means of economic, commercial and social development. Andrew Terry and Marko Grünhagen address the growth and development of franchising in Asia with a focus on Southeast Asia in their chapter, 'Franchising in Southeast Asia: Prerequisites, Progress and Prospects'.

Latin America is a significant developing region for franchising which is also underdeveloped in relation to the extant research on franchising. Muriel Fadaïro and Cintya Lanchimba's chapter, 'Franchising in Latin America', is a welcome contribution to the literature. It outlines the published research on franchising in Latin America, provides an overview of the state of the development of franchising in the region, making comparisons with the development of franchising internationally, and discusses the role of macroeconomic determinants and the institutional environment.

With promising projected growth in terms of economic indicators and population, African countries have become attractive to both non-African and African franchisors. In her chapter, 'An Exploration of Franchising in Africa', Rozenn Perrigot's objective is to initiate research on franchising in Africa by looking at concrete examples of international and African franchise businesses in various African countries with a special focus on South Africa and Egypt. Perrigot adds to the literature on franchising in emerging countries and, more specifically, to the limited stream dealing with franchising in Africa. She also contributes to practice by providing an overview of the franchise business in South Africa and Egypt and by highlighting the opportunities and challenges for both international and African franchisors.

In their chapter, 'The Entrepreneur-Franchisor in an Emerging Economy', Audhesh Paswan, María de los Dolores Santarriaga Pineda and Francisco Carlos Soto Ramirez provide an in-depth case study of an entrepreneur who grew his venture through franchising. The study provides the rich contexts of Latin American culture and an emerging economy in order to grasp the environmental complexities of business development. Paswan, Santarriaga Pineda and Soto Ramirez discover that multiple theoretical frameworks must be applied to explain their observations. They offer conclusions for practitioners who seek to grow businesses in countries encouraging social harmony and economic growth.

Part IX Social Franchising

Social franchising is a recent strategy that essentially involves the application of franchising principles for social rather than commercial purposes.

In her chapter, 'An Introduction to Social Franchising', Anita Du Toit defines the concept and traces its origins and evolution. She differentiates social franchising from social enterprise and from microfranchising. An important contribution of this chapter is Du Toit's effort to determine conditions under which the social franchising model may be applicable.

The final part of the *Handbook* contains a second chapter on social franchising. Recognizing the potential benefits to individuals and communities that suffer economic deprivation, the IFA organized a Social-Sector Franchising Task Force to leverage the franchise model in order to serve those in need. Fiori Zafeiropoulou offers a model that may prove to be of value to such efforts in her chapter, 'The Social Franchise Model: a Systems Approach of the Dynamics of Institutions and Embeddedness in Social Franchise Formation'. The model captures political, social, organizational and individual factors impacting the formation of social franchises.

THE PATH AHEAD

Practitioners as well as scholars will find value in this *Handbook*. The successful operation of a franchise, whether from the perspective of a franchisor or franchisee, should not depend on anecdotal evidence alone. Personal experience on the job is certainly important, but gaining knowledge from the experience of many enables business leaders to avoid mistakes that others have made and to learn from best practices.

And this is the education that scholars provide. From gathering information from individual case studies to massive data analyses is the service that researchers can offer students, entrepreneurs and corporate executives. The chapters in this *Handbook* can guide scholars in productive directions to contribute to knowledge about the expanding role of franchising in the global economy.

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