A Systematic Review of Franchising as an Alternative Business Model

Ayorinde A. A. & Zubairu U. M.

Department of Entrepreneurship and Business Studies,
Federal University of Technology, Minna, Niger State, Nigeria.

Abstract: In today’s business world, franchising has become a viable alternative business model for expansion to many entrepreneurs. As a result, this paper aims to systematically review underlying issues of franchising systems and make suggestions for further research based on identified gaps. The study adopted the Systematic Quantitative Assessment Technique (SQAT) in analysing 91 English peer-reviewed journal articles from 2009-2018 on franchising from six high quality academic databases: Emerald, Elsevier, Springer, Sage, Taylor and Francis, and Wiley. The study reveals a significant work in franchising articles with 17 and 15 papers out of 91 reviewed articles drawing attention to conflict management and market selection processes respectively. 61 out of 91 of the articles were empirical in nature and the theoretical background upon which majority of the papers rested on was Agency theory and Resource Scarcity theory. A large number of the studies were conducted in the USA and Europe, whilst the least were from Africa and none from South America, with survey and Panel data being the most prominent research methods. The study also presented evidence of a growing trend in the number of franchising articles within the ten years. The findings of this research provide an x-ray of discourses on the Franchising research topic, showing intricacies that will serve as guides for existing and prospective researchers in the field. The significant contribution of this study is that it is a new addition to the franchising field, offering insights to act as guides for future researchers.

Keywords: Franchising, Conflict Management, Agency theory, Resource scarcity theory, Systematic review

Introduction
The concept of franchising dates as far back as the 1850s when Singer Sewing Machines, located in New England, decided to market its products
throughout the United States (Olotu & Awoseila, 2011). Grzelak and Matejun (2013), described the concept as a situation whereby the franchisor, based on an agreement, transfers the mode of operation of a particular business to the franchisee, in exchange for a fee known as royalty. From an entrepreneurial perspective, franchising can be referred to as a form of business ownership where an entrepreneur (franchisor) contractually allows another entrepreneur (franchisee) to provide equity to invest in his or her franchising firm (Alon et al., 2017).

Franchising is basically categorised into two: product/trade name franchising, and business format franchising. The product/trade name franchising allows the franchisee (dealer) to buy products from the franchisor (supplier), or to license the use of its trade name. Such products range from automobiles, to appliances, foods, and others (Lafontaine & Blair, 2009). On the other hand, business format franchising is a system in which a franchisor sells a franchisee the right to use all of the elements of a fully integrated business operation; this is common among fast-food restaurants, hotels, retailing and many other types of businesses (Badrinarayanan, et al, 2016)).

Franchising has continued to attract individuals with entrepreneurial spirit who seek to establish and manage their own businesses (Cumberland & Githens, 2012). This is because it offers entrepreneur an easier way to enter the business world using renowned brands, creating wider distribution systems (Sanny et al., 2017), while also providing growth, expansion, support, experience, and training for such entrepreneurs (Seo, 2016; Alon et al., 2017).

Also, franchising is a global success story in which economies across the world have immensely benefitted, as it has been a major service provider, job creator, and self-employment opportunity to the populace of both developed and developing nations (Bodey et al., 2013). For instance, between 2011 and 2016, the average annual job growth in the franchising sector of USA was 2.6%, nearly 2% higher than all other businesses in the economy (“ITA Franchising Top Market Reports”, 2016). Some of the leading US franchise firms include McDonalds, located in about 36,258 places, with a contribution of about $87.78bn in sales; 7 Eleven, sited in about 55,801 locations, and contributing about $84.50bn in sales; as well as KFC, represented in about 19,420 locations across the globe, contributing about $23.40bn in sales.

The merits of franchising cannot be overemphasized, however, some factors make entrepreneurs hesitant to engage in it. The most common is the fear of information asymmetry (Lindblom & Tikkanen, 2010). Many times, the franchisor discloses incomplete information to the franchisee, especially in cases where the franchisor has a bit of information that will be detrimental to the franchisee (Sadeh & Kacker, 2017). Also, the uncertainty of the response of the local market, as well as acceptance of the brand name where the new franchise is to be set up, poses a big risk to the franchisee (Lanchimba, 2018).

Considering the immediate and potential benefits of franchising to entrepreneurs and economies, it is of great necessity that the franchising field be explored in depth, as the concept of franchising could be what is needed to spur businesses and economies unto
development, as well as the sustainability of such development.

As such, this study conducts a quantitative and systematic analysis of 91 scholarly articles in the field of franchising, in a bid to highlight trends and gaps which will serve as reference points for future research. In addition, the study recommends and offers propositions, on possible ways to bridge such identified gaps.

The remainder of this paper is organized as such: The methodology of the study is expounded, followed by the discussion on the findings and suggestions for future research. Lastly, the conclusion, limitations, and suggestions for future research based on such limitations are discussed.

2. Methodology

Table 1: Description and Application of SQAT

<table>
<thead>
<tr>
<th>S/N</th>
<th>Step</th>
<th>Application in current study</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Define topic</td>
<td>Franchising as an alternative business model</td>
</tr>
<tr>
<td>2.</td>
<td>Formulate research questions</td>
<td>Six research questions: i. What is the time distribution of franchising research articles? ii. Where were these articles written? iii. What were the nature of published franchising articles? (Conceptual vs Empirical) iv. Which theory/theories was/were adopted in these articles? v. What research methods were employed in the research? vi. What were the specific themes explored in the articles?</td>
</tr>
<tr>
<td>3.</td>
<td>Identify key words</td>
<td>“franchising”</td>
</tr>
<tr>
<td>4.</td>
<td>Identify and search databases</td>
<td>i. 6 databases exploited: Elsevier; Emerald; Sage; Springer; Taylor and Francis &amp; Wiley. ii. “All in title” search using single search: “franchising”</td>
</tr>
<tr>
<td>5.</td>
<td>Read and assess publications</td>
<td>i. Abstracts of articles found were read and where it was necessary, the entire paper was read to ensure that all the research questions were answered. ii. Literature reviews, book chapters, conference proceedings and a systematic review article were not included; only peer-reviewed conceptual and empirical papers were taken.</td>
</tr>
</tbody>
</table>

3. Findings

3.1 Time Distribution of Franchising Articles

This study reviewed 91 papers as they were the ones that met the criteria of selection within ten years (2009-2018);
as ten years is considered sufficient time to include enough data necessary for the study.

3.2 Geographical Distribution of Franchising Articles
The geographical distribution of the 91 Franchising articles reviewed in this study is presented in Figure 2. North America had the highest number of published articles (40), followed by Europe (31), Australasia (12), Asia (6), Africa (2) and none from South America.

3.3 Research Methods of franchising articles
Figure 3 depicts the methodologies adopted in the 91 franchising articles reviewed in this study.
Based on the findings, 29% of the reviewed articles employed a survey method in which structured questionnaires were administered to stakeholders for their responses regarding various issues underlying franchising (Barthélemy, 2011; Bodey et al., 2013; Dada et al., 2015). This was closely trailed by articles using panel data (23%), that is, data that has been collated over periods of time such as months or years, and stored-up in databanks (Lucia-Palacios et al., 2014; Alon et al., 2017; Lanchimba et al., 2018). 15% of the papers adopted content analysis in which the articles analysed reports and/or documents in testing relevant hypotheses as applicable to their studies (Kacker & Perrigot, 2016; Grünhagen, et al., 2017; Hussain et al., 2017).

Studies that adopted critical analysis (9%) focused on previous works on franchising to provide an initial platform for their studies (Gillis & Castrogiovanni, 2012; Cumberland & Githens, 2012; Weaven et al., 2014), while papers that adopted theoretical analysis (9%) proposed theoretical frameworks and models in their studies (Hendrikse & Jiang, 2011; Paswan et al., 2014; Krzeminska & Zeyen, 2017).

Papers that utilised case study (Chikweche & Fletcher, 2011; Frazer et al., 2012; Forte & Carvalho, 2013) and interview research methods (Flint-Hartle & Bruin 2011; Nyadzayo et al., 2011; Weaven et al., 2012) were the least represented out of the seven research methods acknowledged in this systematic review, as they were only adopted by 8% and 7% of the reviewed papers, respectively.

3.4 Article Type

Figure 4 presents the dual classification of articles: conceptual and empirical. The conceptual papers dealt with the break-down of theories or concepts into their constituent parts to enable the understanding of existing knowledge concerning franchising, whereas the empirical papers consisted of articles that adopted practical measures such as observation and experimentation, which produced verifiable results (“Differences between conceptual and empirical”, 2011).
It can be observed from Figure 4 that 67% (61 out of 91) of the articles reviewed were empirically based, through which the researchers presented useful practical conclusions on issues pertaining to franchising, to the stakeholders involved in the franchise activities (Barthelemy, 2011; Hussain & Windsperger, 2013; Lanchimba et al., 2018). The remaining 33% were conceptual articles, through which the authors offered recommendations (Grünhagen et al., 2010; Marsh & Fawcett, 2011; Tikoo et al., 2012).

3.5 Theories of Franchising Articles
A total of 21 theories were used in the 91 papers on franchising reviewed in this study. Of these, agency theory constituted 51.56%, resource scarcity theory, 14.84%, and Organizational Learning theory, 6.25%, as depicted in figure 5. The remaining 18 theories were used in negligible percentages, totalling 27.35%.

**Agency theory**
This theory explains the relationship between principals (franchisors) and agents (franchisees), and it is concerned with problems that exist in agency relationships (Gills et al., 2011; Weaven et al., 2014; Dada et al., 2015; Grünhagen, et al., 2017). Some of the articles identified agency related problems such as unaligned goals (Asemota & Chahine, 2017), different levels of aversion to risk (Moon et al.,...
2017), and information asymmetry (Perdreau et al., 2017) between franchisors and franchisees, as well as ways to resolve such problems (Hua & Dalbor, 2013; Utgard, 2015; López-Bayón, & López-Fernández, 2016; Hussain et al., 2017).

**Resource Scarcity**

The Resource Scarcity theory posits that franchisor firms are allowed to use capital and managerial expertise of franchisees to accelerate growth and build their brand name (Hsu & Jang, 2009; Sadi & Henderson, 2011; Koh et al., 2015; Bouley et al., 2016; Moon et al., 2017). Some of the papers considered variables like franchise system size, age of the firm, growth rate and capital scarcity which would have an effect on the propensity to franchise (Combs et al., 2011; Sadi & Henderson, 2011; Safón & Escribá-Esteve, 2011; Gillis & Castrogiovanni, 2012).

**Organisational Learning**

The papers that used this theory were of the opinion that franchisors and franchisees are bound to have conflict like non-compliance with terms of agreement (Lindblom & Tikkanen, 2010; Weaven et al., 2014). It focuses on both franchisor learning from their mistakes (Dobbs et al., 2012).

**3.6 Franchising Themes**

In this section, a total of nine franchising themes, which were the focus points of the researchers, were discovered and summarised in Figure 6 based on the 91 articles reviewed. Contractual agreement and conflict management was the theme with highest percentage (19%). Some of the authors critically analysed the relationship between the decision making structure of franchise chains, and the number of conflicts which end up in early termination of businesses by franchisors (Lafontaine & Blair, 2009; Badawi, 2010; Weaven et al., 2012; Jong et al., 2011; Rohlfing & Sturm, 2011; Tikko et al., 2012; Perrigot et al., 2015; López-Bayón, & López-Fernández, 2016; Herz et al., 2016; Grünhagen et al., 2017). Some others proposed that franchisors provide a new franchisee a choice to buy territorial exclusivity (Nair et al., 2009), and provided recommendations on franchisee expectations, confirmation, trust and relationship satisfaction in minimizing potential conflict within the franchising relationship (Frazer et al., 2012; Weaven et al., 2014).

The second most common theme dealt with market and partner selection (16%). The articles in this category discussed issues that determine how and why particular markets and partners are selected (Combs et al., 2009; De Castro et al., 2009; Doherty, 2009; Anwar, 2011; Perrigot et al., 2012; Forte & Carvalho, 2013; Weaven et al., 2014; Moon et al., 2017) and how a franchisor’s characteristics and partnering strategies impact the adoption of franchising as a business model (Michael 2009; Kacker & Perrigot, 2016). They also explored how certain market conditions may drive international diffusion of franchising into emerging markets (Baena, 2012; Forte & Carvalho, 2013).
The next set of articles explored the degree of franchising and performance (11%); franchising models (11%) and knowledge management (11%). The articles reviewed in degree of franchising and performance theme examined the relationship between franchising and firm value as well as the connection between degree of franchising and firms’ accounting performance (Koh et al., 2009; Madanoglu et al., 2011; Meiseberg & Ehrmann, 2012) by investigating the consequence of franchising on the financial performance of franchises (Hsu & Jang, 2009) concluding that a franchisee should have entrepreneurial orientation for improvement in performance (Lee et al., 2015; Calderon-Monge et al., 2016; Sanny et al., 2017).

The articles that explored franchising models advanced different theories and models applicable to franchising with a view of testing their efficacy (Gámez-González et al., 2010; Mumdziev & Windsperger, 2013; Alon et al., 2017; Krzeminska & Zeyen, 2017), while the articles that discussed knowledge management in franchising explained how hidden knowledge held by franchisor is converted to clearly stated knowledge (Lindblom & Tikkanen, 2010; Gorovaia & Windsperger, 2010; Windsperger & Gorovaia, 2011; Ioanna & Maria, 2013; Weaven et al., 2014) and identified barriers to the transfer of knowledge in franchise environments (Cumberland & Githens, 2012; Paswan et al., 2014; Weaven et al., 2014).

Papers discussing the prospects and challenges of franchising covered another 10% of the articles reviewed in this study. These papers examined the significance of franchising, as well as attitudes towards its contributions to business success among SMEs (Sadi & Henderson, 2011) while also highlighting factors that contribute to the success of franchising (Flint-Hartle & Bruin, 2011). They further examined
the role of franchising in the macro-economy of developing nations (Micheal, 2014) and identified human capital requirement as a primary barrier to franchising and the perceptual barrier among key decision makers (Murray & Smyth, 2011).

The theme, multi-unit franchising, which is defined “as an arrangement where a franchisee operates two or more outlets at multiple geographical locations in the same franchise system” (Hussain and Windsperger, 2013, p. 170), covered only 9% of the papers explored. The articles in this category investigated the real options that inspire multi-unit franchise strategies (Koh et al., 2009; Roh & Yoon, 2009; Jindal, 2011; Gauzente & Dumoulin, 2012; Hussain et al., 2012; Perryman & Combs, 2012; Park & Jang, 2012; Griessmair et al., 2014; Baldi, 2016; Ohinok, 2016) and how the franchisor could choose multi-unit systems to obtain higher innovation capabilities (Hussain et al., 2017). They also examined the essentials of franchising on franchise system performance (Bodey et al., 2013).

Branding (6%) and networking (7%) in franchising were the last two themes of focus in this study. The papers that focused on branding sought to explore how brand relationship can be leveraged between the franchisor and franchisee (Nyadzayo et al., 2011; Badrinarayanan, et al., 2016). They outlined the ways in which branding and franchising politics intersect (Marsh & Fawcett, 2011) as well as how franchise brand behaviour influences decisions by potential franchisees. On the other hand, the articles that focused on networking in franchising discussed general issues involved in retail franchise growth considering the role of a franchisor as a capital provider (Nisar, 2011), and they explained the structure of decision rights in franchising networks (Mumdžiev & Windsperger, 2011), examining the early adoption and use of social media network in franchising (Perrigot et al., 2012; Ater & Rigbi, 2015).

4. Discussion of Results
As seen in figure 1, the peaks in 2011 and 2012 are quite conspicuous against the background of the other 8 years; thus it became important that the reason for the sudden upsurge be discussed. Upon deep scrutiny, it was discovered that the Great Depression of the U.S. (the franchise giant) between 2007 and 2009, as well as its slow but steady recovery in subsequent years might have had a lot to do with the franchising research trends.

It was found that franchising did not really catch the attention of researchers in both 2009 and 2010 as both years saw only 9 and 7 franchising publications respectively. In 2011, there was an upsurge to 21 papers, implying some sort of increased interest of researchers in the field. The following year saw a slight drop to 17 papers; however, that negligible drop did nothing to prepare the authors of this study for the rude shock of the decline in franchising publications in the subsequent years. For the next three years, 2013-2015, only 6 papers were published each year. 2016 was only slightly better as publications increased to 8 articles followed by 10 articles in 2017. Probably with respect to the fact that the reviewed papers were collated in January 2018, only 1 paper was recorded published.

The drastic drop in franchises and other forms of businesses between 2008 and 2009, as well as the very slow pick up in
2010 might have been responsible for the seeming lack of serious interest in franchising research. Therefore it is not so surprising that as soon as the effects of the recession began to ease up, the recovery signs might have caught the attention of researchers such that franchising publications increased between 2011 and 2012.

The U.S. experienced huge loss of jobs to the tune of 744,000 jobs per month between November 2008 and April 2009 and credit market for startup loans was almost non-existent with the severe financial crises that plagued the economy. Consequently, franchising was sent to the bottom half of many entrepreneurs’ possibility list (Elgin, 2018). However between 2011 and 2016, about 200,000 jobs were recovered per month (“Civilian employment level”, 2018). Also as at December 2010, Small Business Administration had begun to back some small businesses loans and conventional loans had started being approved by local and regional banks, putting franchise ownership back up on the list of possibility. In addition, corrections in the commercial real estate market as well as increasing vacancy rates expanded the number of attractive real estate choices available to franchisees. Furthermore, many companies were expanding their financial information on their Franchise Disclosure Documents, a positive development for the franchise market (Elgin, 2018).

Looking at the various franchising themes identified above, it is quite obvious that the issue of conflict management between the franchisor and the franchisee had been addressed and recommendations were given. While market and partner selection considers how firms choose franchise markets and partners and provides insights into the international franchising by examining the selection process holistically.

5. Recommendations
Despite the economic recession that the 2008-2009 caused and the obvious pointers studies revealed, publications in the field of franchising are still low. It is therefore recommended that more research be conducted in the field, as the importance of franchising to economies and vice versa is glaring.

In view of the fact that interview, which involves collection of data directly from the persons involved in the use of franchising as a start-up business model, was the least commonly used research method in the papers reviewed, it is recommended that this method be adopted by future researchers in the field of franchising, as it ensures that they get first-hand information from the stakeholders involved.

More so from Fig 4, the disparity in the percentages of empirical vs conceptual studies shows the direction in which future researchers should give attention by focusing on conceptual research for a better understanding of the deeper philosophical issues involved in franchising.

Both branding and networking themes, were the least represented among the 91 articles reviewed in this study, therefore, it is recommended that future researchers, explore these area of franchising. For the networking theme future studies should examine franchise specific capital providers in a view to identifying the key stakeholders. Also, social media adoption in franchising opens up new paradigm of franchising. As such, the role of social media in franchising should be examined. Similarly, future researchers should
explore various dimensions that may influence branding as well as identify factors that can affect brand relationships on brand equity.

6. Conclusion
In this study, the 91 peer-reviewed journal articles on franchising articles were examined based on five major classifications, namely, the time distribution of the articles, geographical distribution of the articles, research methodologies, article type, theories adopted and themes discovered. The results of the review were discussed and directions for further research were given. Though a good number of franchising articles have been carried out, it is quite worthy to improve on what has been done for more conceptual research in order to have a sound theoretical basis on franchising issues as it has a great impact in developing the economies of a country, especially in developing countries that are yet to take advantage of growing businesses with proven track record.

The study suggested that some of the limitations pointed out in this study, should be researched upon by addressing the identified gaps possibly by extending the use of a title search in more databases to enrich the methodology adopted in this study. Though, the databases consist of high quality, peer-reviewed journal articles, they do not contain all peer-reviewed franchising articles. As a result, future systematic review can increase the scope of databases to gain further insight in franchising research. Furthermore, the scholarly articles reviewed in this study were those published during a period of ten years. Consequently, future researchers should expand the number of years for wider coverage.

The papers reviewed in this study, made use of only journal articles with the exclusion of book chapters and conference proceedings which is in line with the SQAT methodology adopted. Therefore, future researcher should include book chapters and conference proceedings as they are also reputable reference materials.

Another limitation of this study is that a title word search was used rather than a key word search which provides a more detailed search of articles on franchising. In spite of this, making use of a key word search would have produced a significant number of papers for the review

Nevertheless, this study is significant as it illuminates areas for further research which should be addressed in order to bridge the gaps identified so far.

References

of Management, 35(5), 1268-1290.


