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1. **Institutional Environments and the Internationalization of Franchise Chains: The Contrasting Cases of North African Countries**
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Franchising has become a dominant model of retailing in the Western world and is also developing in emerging countries, with the internationalization of franchisors. The paper is an attempt at explaining the significant differences in the development of franchise between Morocco, Algeria and Tunisia. Explanations can be found in the general institutional environment in these countries (country risk, capital export control) as well as in the governments' willingness to modernize the distribution structures and the specific institutional environment of franchising: franchising law, the development of federations that serve to legitimize franchise partners with resource providers, banks and prospective franchisees. The analytical framework is that of institutional theory (DiMaggio and Powell, 1983) that provides new insight on approaches based on economic efficiency (agency theory and the resource scarcity perspective). From an analysis of the documents in the major public databases in the three countries, supplemented with field research, we propose an analysis grid of the institutional environment specific to franchising. Our analysis grid is used to explain the contrasting development of franchises in the North African countries. This development is also explained through the institutional theories renewing the approaches based on economic efficiency (agency theory and the resource scarcity perspective).

2. **Franchise Environment in Saudi Arabia**
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Franchising business in Saudi Arabia started thirty years ago. The business is facing some barriers: regulatory, socially and culturally. The business is dominated by large and well-known companies. The contribution to Small and Medium Enterprises (SMEs) is very small, so the opportunity for development through the self-employment of entrepreneurs or small businessmen is limited, despite the fact that the government supports Saudi youth financially and technically. Some efforts have been made by the Chamber of Commerce and concerned departments to spread the franchise culture among the Saudi businessmen and society as a whole. The SME's department and the Saudi entrepreneurs are jointly encouraging the foreign franchisors to grant franchise agreements to new businessmen. The future of franchise as a mode of expansion and development of business, to both franchisors and franchisees in Saudi Arabia is promising.

3. **The Choice of Governance Modes of International Franchise Firms: An Integrative Model**
Maria Jell-Ojobor, University of Vienna (Austria)
Josef Windsperger, University of Vienna (Austria)

This paper examines the evolution of the international franchise research with special focus on the governance modes of the international firm and develops an integrative model for the franchisor's choice of the international governance modes. International governance modes in franchising refer to wholly-owned subsidiaries, joint venture franchising, area development franchising and master franchising. Although many studies on the governance modes of the international franchise firm have been published in the last two decades, no prior study develops an integrative framework that investigates the determinants of the international governance modes by combining organizational economics and strategic management perspectives. Specifically, this study explains the governance modes of the international franchise firm by applying transaction cost theory, agency theory, resource-based and organizational capabilities theory and property rights theory.

4. **Assessing the Threat of Free Riding Through Attributions of Franchise Service Encounters**
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Free riding takes place when a franchisee does not bear the full costs of its under-investment in maintaining service quality. The franchisee's under-investment is a threat to the performance entire franchise system because it is assumed to reduce the overall perception of brand quality. Underlying the problem of free riding, therefore, is the assumption that consumers who experience lower quality service at an under-investing franchisee's outlet generalize the experience to the brand overall. Essentially this is a question of attribution. To whom does the consumer attribute his or her bad experience, the local franchisee or the franchisor (brand)? If the consumer attributes the bad service experience to the local franchisee, that franchisee bears the full negative demand effect of its under-investment. The consumer continues to prefer the brand but will not return to this particular outlet. If the consumer instead attributes the bad service experience to the franchisor or brand, the franchisee bears only a portion of the negative demand effect while avoiding the full costs of maintaining quality service. This attribution to the brand is the source of free riding and assessing its prevalence is the subject of this paper. In Study 1 we demonstrate that there is substantial variance in consumers' assessment of quality across franchised outlets within the studied systems, a necessary condition for free riding to exist. In Study 2 we explore the conditions under which consumers attribute their variable service encounters to either the franchisee or the franchisor (brand). Our findings indicate that in general across different characteristics, consumers tend to attribute negative encounters mostly to the franchisee. This is particularly true for the two more heavily franchised brands. In contrast, they attribute positive encounters mostly to the franchisor.

5. **Profiling USA Based Fast Food Franchise Chains: A Cross National Comparison**

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Hyo Jin (Jean) Jeon, University of Nevada-Reno (USA)
Josef Windsperger, University of Vienna (Austria)
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Firm reputation (FR) provides the referential barometer to evaluate the standing of a firm's performance in the eyes of its various stakeholders. FR not only rewards firms through positive financial performance, but also serves as a buffer against the negative effects of firm crises in the marketplace. Since FR represents the accumulated impression formed in stakeholders' minds resulting from their interactions with the firm, the implementation of marketing strategies focused on developing, enhancing, and maintaining FR (especially, among stakeholders independent of and external to the firm, i.e., it's customers) is posited to be critical for firms seeking sustainable competitive advantage and higher levels of firm commitment and loyalty. In this very first exploration estimating FR within a franchising context, we execute a multi-country study straddling Developed Economies, Eastern Bloc Economies and the BRICS Economies, to assess how two iconic American franchise chains, namely, McDonald's and Burger King fast- food franchise restaurants, are perceived by their customers in terms of Brand Reputation and Brand Commitment across these three country groups. On a more exploratory note, we also assess the effects of these country groups and brands on a host of demographic variables and six additional variables gleaned from secondary sources (e.g., the number of outlets within the sampled municipal boundaries and the countries, outlet density, purchasing power parity of local currencies, and the years these chains entered a particular country). The study sheds light on international franchising in general and FR literature in particular, and provides new nuanced insights into the ongoing debates surrounding the global marketing strategies such as standardization versus localization.

6. **One-Enterprise-Multi-Brand-Hybrid-Franchise Pattern: The Case of Cabbeen Clothing (China) Co., Ltd.**

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Brand itself has great and important effect on the franchise expenditure pattern and franchise system expansion. But is the brand affecting the adoption of franchise model? By studying the case of Cabbeen Clothing (China) Co., Ltd., this article is analyzing different stages of interlacing development of brand and franchise model of Cabbeen Clothing. The research indicates: in a franchise system, the changes of brand will affect the franchise model. And different scale, popularity and development stage of brand will make the headquarters adopt different franchise model to meet with the brand strategy of the enterprise. Meanwhile, in one- enterprise-multi-brand condition, different brand coordinates verified franchise model, structuring one-enterprise-multi-brand-hybrid franchise model.

7. **Franchisees' Financial Constraints and Franchisors' Franchising Decisions**
Ying Fan, University of Michigan (USA)
Kai-Uwe Kühn, University of Michigan (USA)
Francine Lafontaine, University of Michigan (USA)

We study how the financial constraints of agents affect the behavior of principals in the context of franchising. We develop an empirical model of franchising, simultaneously considering the effect of franchisees' financial constraints on chain growth but also on the franchisors' decision about when to begin franchising. We estimate the model by combining data on franchised chains and data on local macroeconomic conditions. In particular, we use collateralizable housing wealth at the state level as an inverse measure of the average financial constraints of potential franchisees. We find that a decrease in collateralizable housing wealth in the local economy leads to both later entry into franchising by local franchisors, and slower growth in the number of franchised outlets in these chains. We then show that the corresponding job losses can be substantial.

8. **Signaling the Value of a Business Concept: Evidence from a Structural Model with Brazilian Franchising Data**
Muriel Fadairo, University of Lyon (France)
Cintya Lanchimba, University of Lyon (France)

Within the wide literature regarding franchising, a few studies were devoted to the adverse selection phenomena in the franchise relationships, and to the signaling explanation of the franchisors' organizational choices. Previous empirical works concluded that the signaling framework is not well adapted to study franchising. However, most of the empirical literature has focused on developed countries. This empirical paper deals with the case of Brazil. We estimate on recent franchising data a structural equation model capturing the simultaneous influences of a valuable business concept. The paper provides evidence that the signaling theory is adequate to understand the organizational choices regarding the ownership structure of franchised networks in emerging markets. The estimation results suggest indeed that the Brazilian franchisors use signaling devices, and that the necessity to signal the value of a business concept affects the organizational choices at the network level.

9. **The Behavior of Franchisor Stock Prices**
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Robert J. Bianchi, Griffith University (Australia)
Michael E. Drew, Griffith University (Australia)

The franchise business model has unique features that may translate into superior financial performance. This study examines whether these unique features translate into excess returns for publicly listed franchise stockholders. To measure excess returns, this study

evaluates the risk- adjusted performance of U.S. publicly listed franchise stock returns against the broad U.S. stock market. The findings reveal that franchise stock returns significantly outperform broad U.S. stocks on a raw and risk-adjusted basis in the first half of the sample period. This outperformance remains economically significant but loses its statistical significance in the second half of the sample period. These findings suggest that the benefits of franchising have been apportioned to the franchise stockholders but are slowly being priced into the valuation of these stocks. The study also reveals that franchise stocks outperform the broad U.S. market in both expansionary and contractionary phases of the U.S. business cycle. Finally, we show that franchise stocks returns are more sensitive than broad U.S. stocks to changes in U.S. monetary conditions due to the higher concentration of small market capitalization firms inherent in the franchise portfolio compared to the broad U.S. market. Overall, this study provides new insights into the long-term returns and risks associated with the ownership of publicly listed franchise businesses.

10. **Deriving Meaning for 'Social Franchising' from Commercial Franchising and Social Enterprise**
    Elizabeth Crawford Spencer, Bond University (Australia)

Planned Parenthood, the Roman Catholic Church, Auntie Anne's Soft Pretzels, the Annapurna Conservation Area Project, the HealthStore Foundation, the American Red Cross, and IKEA have something in common. All are franchises operating for a social welfare purpose. But does this mean that they are social franchises? Many enterprises call themselves or are labeled by others as social franchising. In fact, there is a diversity of perceptions (and misperceptions?) of what is meant by the term, 'social franchising.' Social franchising is a relatively new area of research. A crucial first step in research on any topic is to define its parameters, but there is as yet no agreed definition in the academic literature of precisely what social franchising is. This article aims to clarify the meaning of social franchising by bringing together three strands of scholarship and research on commercial franchising, social franchising and social enterprise. It synthesizes the essence of the definitions of social franchising and suggests how this very broad formulation can be tested and refined. It is hoped that the results of this article will advance understanding of franchising arrangements in the social welfare context and inform legal interpretation and regulation of these arrangements.

11. **Social Franchising: A New Paradigm for a Global Challenge?**
    Benjamin C. Litalien, University of Maryland-University College (USA)

The nonprofit sector has been traveling the familiar road of government funding, donor support and foundation grants for a long time, yet indications are that this path is becoming more narrow and overcrowded. This ineluctable situation prompts leadership in nonprofit agencies and social organizations to consider seeking a new journey to reinvigorate their efforts and provide resources that are more reliable for the mission ahead. While the path of social enterprise is well trod with new business idea development, earned-income activities and other business platforms, it has left many travelers by the wayside with failed attempts, diminished resources and constantly moving targets. Moreover, those organizations that have succeeded cannot afford to continue to rely solely on just a traditional path if their full potential is to be reached in the increasing complexity of the global economy. The franchise business model has been developing for over seven decades with its foundations most mature in the United States, yet growth in the use of this palimpsest construct abroad is accelerating. Due to its systematic replication indicia that results in reduced monitoring cost, increased yield by all parties and strong market acceptance, business format franchising is attracting the attention of nonprofit leaders in all sectors, both domestically and abroad. The intersection of nonprofit organizations and the franchise model (e.g. social franchising) is generating hope in the creation of a powerful and compelling gate to the future. While it suggests renewed prospects for developing long-term sustainability, numerous issues need to be explored and addressed. This paper seeks to identify some of the key management issues and illuminate the challenges they represent, as well as recommendations for moving the construct of social franchising forward in a global marketplace.

12. **Social Franchising Formation: A Systems Approach that Enhances Formation to Resolve Issues Created by the Financial Crises**
    Fiori A. Zafeiropoulou, Seattle University-City College (Greece)

This paper is a conceptual paper investigating motives of formation that lead to the development of social franchises from a systems approach, this research is part of a project that has been undertaken by the author for the creation of the social economy sector on behalf of the Municipality of the City of Athens and with the support of the Social Business Initiative of the European Commission. Social Franchises emerge as a possible solution to tackle the issues created by the recent financial crises; such as unemployment and the alleviation of poverty, the unmet needs of the social welfare state, the need of governments to reduce fiscal deficits, the need of NGOs to raise revenue, and the need of small-medium enterprises to survive. We explore the issue of social franchising formation through case study analyses of the first three social franchises that are being formed in the Greek market and of 102 social enterprises that are active in the Greek market. The data collected is then contrasted with the data that was published by Zafeiropoulou & Koufopoulos (2013, 2012) and Zafeiropoulou & Woods (2012) from a study of four social franchises that were found to be active in 2011 in the UK. Three systems are seen to influence more the formation of social franchises. Primarily the system of relational and structural embeddedness where sentiments of solidarity, information deriving from the so called “tertius iungens” and networks enhance formation. Then the second system is that of social entrepreneurship and social innovation dynamics and the third system is the institutional framework of each state and of the European Commission which act as an incubator, facilitator and enhancer of social franchise formation. These systems are influenced by the wider environment in which a social franchise is operating and by the operations system of each social franchise.

13. **Insisting Too Much on Network Uniformity in the French Market: A Potential Risk of Requalification of the Franchise Contract**
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Franchisors usually impose some obligations to their franchisees in order to maintain and reinforce their network uniformity. But, if too many obligations are imposed to franchisees, and beyond potential conflicts with the franchisor, the risk consists of a reclassification of the franchise contract as an employment contract or a company-owned unit manager contract. In this paper, these two possibilities are exposed with examples of Fiventis and Yves Rocher, two French networks: one in the real estate, life insurance and tax-sheltered savings products sector and the other in the cosmetics and body and face care sector. Implications for practice and tracks for future research are also discussed.

14. **The Franchise Seesaw: Thoughts on the Balance of Power and Control in Australian Franchises**
Courtenay Atwell, University of New South Wales (Australia)
Jenny Buchan, University of New South Wales (Australia)

The franchisor's need for power over its franchisees and control of its brand underpins many of its decisions. Power and control can be calibrated appropriately or used oppressively. Power and control have been examined by numerous business academics. In this paper we ask what the law can add to the debate. We look at types of power and control, and identify retail franchisees trading from conventional bricks and mortar stores as particularly vulnerable to a franchisor's opportunistic abuse of power or control. We draw attention to new threats to the franchisor's ability to control franchisees: being Gen Y and online retailing. We identify the key legally sanctioned levers of power and control in franchising. The tools that the law provides for calibrating power and control are briefly inspected, as are levers outside the law. We suggest that the balance of power and control is not static; it tips towards one party or the other periodically throughout the franchisor's relationship with its franchisees. Finally, we conclude that the law provides a rich source of data to inform ongoing research about power and control in franchise relationships.

**15. Determinants of the Evolution of Cooperation in Franchising Networks**
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We develop a conceptual framework that integrates concepts from evolutionary (game) theory and from cultural anthropology to study how cooperation emerges and persists within organizational contexts. In particular, we argue the case for three rules that govern

the evolution of cooperation – kinship selection, direct reciprocity, and indirect reciprocity. We apply these rules to a cooperative arrangement that displays particularly interesting features as regards its entrepreneurial members' tendencies towards choosing cooperative vs. defective, or "free- riding", behavior: to the franchise form of organization. We further argue that social learning and cultural transmission mechanisms support these three rules of cooperation, so that cooperation can evolve and remain stable even in noisy and large group environments. The model helps organizations understand factors that affect cooperative tendencies among its network members, and provides direction on how to foster, promote, and fine-tune a cooperative climate in the network – initially, as well as in the long run. Accordingly, we develop specific propositions concerning the evolution of inter-firm cooperation within the franchised type of business.

16. **The Impact of Decentralization and Trust on Network Performance: The Case of Franchising**
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Haris Seferagic, University of Vienna (Austria)
Josef Windsperger, University of Vienna (Austria)

Research on formal and relational governance mechanisms—decision rights and trust—for managing the franchise networks is on the rise. However, the understanding of how they impact performance of franchise networks remains rather unclear. Thus, the primary goal of this study is to examine the individual and combined effects of decision rights delegation and trust on franchise network performance. The empirical results from a survey of German franchise firms indicate that there is a positive impact of decentralization and trust on network performance. In addition, we find that trust mediates the impact of environmental uncertainty and franchisor's intangible assets on the delegation of decision rights to franchisees. Specifically, the results indicate that trust is a facilitator of decentralization in franchise networks.

17. **How Do Franchisees Assess Their Franchisor's Trustworthiness? An Empirical Study**
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A lack of trust of franchisees in their franchisors may lead to various kinds of undesired franchisee behaviors, and such behaviors may negatively affect franchise system performance. A franchisee's trust in its franchisor is largely dependent on this franchisee's assessment of its franchisor's trustworthiness. However, very little is known about how franchisors can create and maintain an image of trustworthiness among their franchisees. This paper combines franchising literature with literature on trustworthiness in other organizational contexts to develop and test a theoretical framework on antecedents of franchisees' perceptions of franchisor trustworthiness. The empirical results indicate that a

franchisor's franchise relationship management, proactive and reactive quality assurance and strategic management impact a franchisee's assessment of franchisor trustworthiness. Managerial and theoretical implications are discussed.

**18. Trust and Multi-Unit Ownership in Franchising: A Relational Governance Perspective**

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Multi-unit franchising (MUF) is becoming an increasingly important organizational form. Most of the previous literature on MUF presents explanations based on agency theory. As an attempt to complement the dominant agency-theoretical explanation of MUF, this study applies the relational governance perspective by investigating the role of trust in franchisor's choice between MUF and single-unit franchising (SUF). Our data from the German franchise sector indicate that knowledge-based trust has a positive influence and general trust has a negative influence on the franchisor's tendency towards MUF.

19. **Exploring the Role of Ownership Structures in the Results of Professional Healthcare Franchises from a Multi-Actor Perspective**

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Franchising is being increasingly applied in the professional services sector, but evidence on how successful this model is in this sector is scare. This paper explores how the choice of different ownership structures within franchises has an impact on the results that are achieved from the perspective of multiple actors: franchisors, franchisees and professionals. We conducted a comparative embedded case study with three professional healthcare franchises in the Netherlands, using data from 101 interviews, various observations and document analyses. The study reveals that different system-level (plural form, pure franchise, cooperative franchise) and unit-level (stand-alone vs. fractional, active vs. passive, single vs. multi-unit) structures are believed to contribute differently to results. The combinations of structures can strengthen or weaken each other in terms of the achievement of results. Professionals and franchisees regularly feel satisfied and able to deliver high quality and efficient services in a pure franchise system with a stand-alone, active, single-unit ownership structure, although some professionals prefer fractional passive unit ownership. In contrast, the franchisors find a plural form the most advantageous system-level structure in terms of the achievement of multiple results. They (wrongly) assume that the franchisees also derive advantages from this structure. Professionals and organizations should carefully select their ownership structures by considering the relative importance of the different types of results for the different stakeholders. Quantitative or mixed methods research in other professional (healthcare) services should extend and confirm these insights.

20. **Meeting the Challenges for Franchising in Developing Countries: The Vietnamese Experience**

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Franchising is an increasingly popular business expansion strategy. In its contemporary business format mode it is a method of business operation which has revolutionised the distribution of goods and services in virtually all industry sectors and has transformed the business landscape of most countries. It is a particularly important strategy in developing countries because the franchisor's provision of a proven concept and system as well as training and ongoing support promotes SME development. A viable and healthy franchise sector nevertheless requires adequate and appropriate infrastructure - political, legal, economic, commercial and social- cultural. Each of these infrastructure prerequisites may pose challenges for developing franchise sectors in developing countries. While business format franchising is the industry standard for developed countries it remains an aspiration for many developing countries. Despite the attraction for developing countries of systems, training and support, and despite the economic and regulatory infrastructure being in place for the development of business format franchising, a range of commercial and socio-cultural factors may conspire to prevent its full expression.
This paper addresses franchising development in Vietnam. It considers strategies to bridge the gap between Vietnamese franchise practice and franchising best practice. It proposes that in Vietnam's current state of development the product and trade name model may be the appropriate starting point with a move to the business format model only when, and in places where, the social-cultural, commercial and economic factors and the legal environment can accommodate more sophisticated business format franchise arrangements.

21. **Knowlege Management in International Franchise Networks**

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Vargo & Lusch (2008) suggests that knowledge is the dominant operant resource of an organization and it provides the very basis for competitive advantage. Hence, effective management of knowledge is the key to success in any franchise network. This is particularly relevant when the franchisor enters foreign markets that display divergent cognitive distances and franchisee absorptive capacity. We offer a 4-cell typology that organizations can use to effectively manage knowledge flows in the international franchising context. The typology is based on strategic ownership (equity versus franchisee) and control (behavioral versus outcome- based) choices of the franchisor. We discuss key characteristics of managerial action in each cell of the typology, and present managerial and research implications of the proposed typology.

22. **Performance in Distribution Systems: What is the Influence of the Upstream Firm's Organizational Choices?**
Muriel Fadairo, University of Lyon (France)
Cintya Lanchimba, University of Lyon (France)

This paper studies the performance of distribution networks as the result of a range of organizational choices made by the upstream firm. The analytical part of the paper surveys the vast literature devoted to franchising and to dual distribution. From this framework, several testable propositions are derived, linking the networks performance to the organizational choices. Three complementary criteria of performance are taken into account: the internationalization rate, the expansion rate, the market share. The paper provides evidence that these criteria are empirically related. Thus, a system of simultaneous equations is defined, free of endogeneity relating to the explanatory variables. The estimations on recent French data by means of the three-least squares method provide robust results, and show that the type of distribution network, the number of company-owned units in the network, the type of sector, and the choice to manage several networks simultaneously affect the performance in distribution systems.

23. **Learning and Performance: The Case of Franchising**
Vanesa Solis-Rodriguez, University of Oviedo (Spain)
Manuel Gonzalez-Diaz, University of Oviedo (Spain)
We analyze the impact of completeness on the financial performance of franchise chains, considering that performance is contingent on the fit between characteristics of the transaction and the degree of completeness. We evaluate this idea using a treatment regression model and an original sample of 74 franchise contracts. Results suggest that completeness is profitable only when relevant contractual hazards are dealt with and when these contractual hazards are tangible, i.e. monetary investment such as the upfront fee and outlet investment. However, completeness does not affect performance when the contractual hazards are related with the expropriation of intangible assets, such us brand names (reputation). We also observe that most experienced franchisors are those who make more profitable their chains (up to a threshold), but the degree of completeness of their contracts is irrelevant in terms of performance. This is because although they might know how to design the contract, they may have non contractual hazard where completeness give them an advantage.

24. **The Effect of Franchising on Firm Growth: An Empirical Analysis from China**
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This study examines the effect of franchising on firm growth in China's franchise systems. The methodology involves estimating growth model using unbalanced panel data compiled from the China Top 100 Franchises from 2008 to 2011. The results indicate that franchising has marginally significant positive effect on firm growth. A related significant funding is that inner firm conditions such as preceding firm size and average sale of units have negative effect on firm growth.