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International Society of Franchising

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1. **Advancing Sustainability of the Franchising System with ESG-Oriented Contracts**

S. Sinan Erzurumlu – Babson College
Phillip H. Kim – Babson College
Lokesh Dani – Babson College

We focus on the franchising relationships under the lens of ESG practices from the perspectives of the agency and social exchange theory. We propose a stage-based contract to establish coordination between the franchisor and franchisees towards ESG orientation. We extend social exchange theory into the realm of ESG-oriented franchising contracts. Our findings show an approach for franchising constituents to engage in collaborative interactions and develop ESG-orientated franchising systems.

2. **FRANCHISE EDUCATION BOOTCAMP: INITIAL RESULTS OF EVALUATION**

Denise M. Cumberland, PhD – University of Louisville
Gary D. Jones, PhD

The linkage between HEI and industry continues to expand. The explosion of entrepreneurial training within HEIs has led to numerous examples of evaluation case studies that delineate the impact of these educational initiatives. The franchise sector has recently tapped HEIs for educational pathways, with multiple franchise benefactors supporting the development of this curriculum (Cumberland & Ellinger, 2023). This evaluation study of one such franchise training program emphasizes the importance of embracing a consumer-based approach to evaluating these franchise education initiatives.

3. **International Franchising, Drivers and Performance**

Dr. Farhad Sadeh – Eastern Illinois University
Dr. David J. Boggs – Eastern Illinois University

The drivers and modes of international expansion for firms have garnered significant attention from academic scholars and industry professionals alike. Franchising, a prevalent retailing method in the US, has experienced rapid growth not only in developed countries but also in emerging economies like China and India. Despite the inherent risk of potential damage to the franchise brand by an opportunistic international franchisee and challenges to monitoring them by franchisors, many franchise firms opt to expand their business to foreign markets.

This study seeks to explore the antecedents of international franchising by US companies. While existing literature has examined international franchising through various theoretical lenses, empirical studies on the drivers of US franchisors' decision to expand abroad remain limited. Drawing upon economics and marketing theories, and the international business literature, we develop a theoretical framework. Our investigation delves into the connection between franchisors' decision to engage in international expansion and micro-level factors, including the franchisor's characteristics, strategies, governance mode, and institutional isomorphism.
We empirically test our hypotheses using econometric panel-data analysis methods, leveraging data from the US franchise industry. Our dataset comprises an unbalanced multi-sector panel encompassing approximately 1,000 franchise firms spanning the period from 2013 to 2019. Our findings corroborate the link between governance mode, institutional isomorphism, as well as some micro-level factors, and franchise internationalization. These results illuminate the antecedents of international franchising, contribute to franchising and marketing literature, and offer valuable insights for managers contemplating franchising as a mode of entry into foreign markets.

4. **The Art of Franchise Growth: The Case of Franchising and Financing for Swedish SMEs**
Martin Ludvigsson-Wallette, Kristianstad University, Sweden
Audhesh Paswan, University of North Texas, USA
Linda McKeiver, University of North Texas, USA
Cornelius Foote, University of North Texas, USA

Franchising is a powerful economic engine for businesses and has played an important role in trade, business growth, and expansion for more than half a century. Extensive research on the business format of franchising is conducted in many other countries, while in Sweden, virtually no research on franchising is conducted at all. The purpose of the study is to empirically study Swedish franchising and explain the financing situation for SMEs. This will be done primarily through extensive survey studies.

5. **Capital Structure and the Franchise Decision: A Knightian View**

Ariel Viale, Palm Beach Atlantic University, USA
Christos Kelepouris, Palm Beach Atlantic University, USA

We introduce a novel explanation to the capital constraint hypothesis in the franchising literature that does not rely on agency costs. The capital constraint that binds innovative decisive entrepreneurs is the result of cautious external investors who are less confident about the future prospects of the investment venture. We contribute to the dynamic corporate finance literature on capital structure adding support to the hypothesis that heterogeneous beliefs about the future prospects of the investment venture may arise endogenously as a response to ambiguity. Finally, we contribute to the ambiguity literature in finance and economics, by adding support to the explanatory capabilities of the multiple-priors preferences approach to Knightian uncertainty or ambiguity.

6. **Knowledge Management and Generative AI in Franchising Networks**

Agustin Palao Mendizabal, University of North Texas, USA
Pamela Scott Bracey, University of North Texas, USA

Franchising networks should be aware of the coming trends and implications of Information Technology in their knowledge management processes. The provides an overview of the advantages and disadvantages of Generative Artificial Intelligence (GAI) in the knowledge-generating process for the franchising system.

7. **Shareholder Returns to International Market Entry by U.S. Franchisors**

Anna Sadovnikova, Monmouth University, USA
Saurabh Mishra, George Mason University, USA
Manish Kacker, McMaster University, Canada

For retail franchise firms, entry into new international geographic markets can be a key strategic driver of organic business growth. Such chains rely on contractually governed exchange relationships with franchisees (and other partners) to rapidly exploit such growth opportunities. We draw on economic theories of the firm to develop a conceptual framework for investigating the shareholder returns impact of announcements of international market entry decisions by franchise firms. We empirically evaluate hypotheses from this framework (using the event study methodology) to analyze international market entry announcements made by retail franchise firms for multiple country markets over the 2000–2022 period. Our findings (based on our selection model, first stage event study and cross-sectional regression model) reveal a significant positive shareholder return impact of international market entry announcements. Additionally, they highlight the role of different types and sources of macro level factors in explaining the direction and magnitude of the shareholder return impact of such announcements. The study offers important implications for franchising theory; it also provides actionable insights to franchising practitioners regarding the risks and rewards of international market entry decisions.

8. **The Role of Franchisee-Ambassadors in Franchise Chain Development**
Corentin Le Bot, University of Rennes, France
Rozenn Perrigot, University of Rennes, France
Anna Watson, Edinburgh Napier University, UK

A number of studies have highlighted the critical role that franchisee selection and recruitment play in the long-term success of a franchise system. The challenge for both franchisors and franchisees seeking to determine if the partnership will be a good fit is the information asymmetry that they both face during the screening/recruitment phase. The presence of information asymmetry means that both parties must rely on signals. However, for signals to be useful they must be credible. Perhaps for this reason, much research has focused on hard or objective signals that franchisors can provide, but a recent study found that in addition to these objective signals, softer signals are also important in the decision-making process and can be highly credible.In this paper, we focus on one type of 'soft' signal that franchisors may use—franchisee-ambassadors. Franchisee-ambassadors are franchisees who assume the role of ambassadors of the chain they belong to, by being a point of contact to external franchisee candidates to answer questions, or in some cases facilitate store or immersive visits. Franchisee-ambassadors can thus play a pivotal role in the chain development and hold a privileged position for both resource acquisition and transmission: they can both make informed decisions and play a broker role by strategically transferring or holding back information to franchisee candidates.Our research aim is to understand the roles of these franchisee-ambassadors in franchise chain development. More specifically, we examine (1) how franchisee-ambassadors are selected, (2) if and how franchisee-ambassadors are briefed in advance of their interactions with franchisee candidates, (3) how franchisee-ambassadors interact with franchisee candidates, and (4) the role of franchisee-ambassadors in the recruitment process. Our empirical research is based on an analysis of 27 in-depth interviews with franchisors and chain developers.

9. **Laurels or Thorns of Trust? How Embeddedness Moderates the Exchange-Satisfaction Relationship in Franchising**
Matthias Glaser, University of Salzburg, Austria

Josef Windsperger, University of Vienna, Austria
Evelien P.M. Croonen, University of Groningen, The Netherlands

Building on social exchange theory (SET) and leader-member exchange (LMX) theory, we study the effect of exchange on franchisee commitment and satisfaction under different levels of trust. Our findings based on franchisee data highlight that the direct effect of exchange on franchisee satisfaction is moderated negatively by trust. Our theoretical contributions are threefold. First, we extend SET in franchising by showing how the 'dark side' of trust weakens positive outcomes of exchange. Second, we illustrate the value of applying LMX in franchising. Finally, we extend SET and LMX by showing the relevance of embeddedness in franchise relationships.

10. **Murky Practices and Unsustainable Performance Focused Control Mechanisms in the Australian Automotive Industry**

Adiba Fattah, Victorian Automotive Chamber of Commerce, Australia
Anthony Grace, University of the Sunshine Coast, Australia
Lorelle Frazer, University of the Sunshine Coast, Australia
Wayne Graham, University of the Sunshine Coast, Australia

This paper explores this research question: how do sources of power and control mechanisms manifest in the Australian automotive industry (AAI)? The relational nature of franchising in the AAI has seen considerable disruption in recent years. With allegations of power abuse and questionable performance focused control mechanisms voiced by franchised dealers and their representatives, car manufacturers have recently undergone intense public scrutiny. Whilst two car manufacturers have disassociated from franchising in recent years, moving to an agent-based distribution model, the remainder of car manufacturers remain dependent on franchising as the main marketing channel to distribute their products and services to consumers. This research examines the exercise of sources of power and control mechanisms within the AAI, examined through an agency theoretical lens. This empirical study adopted a two-stage qualitative design gathering data across 40 in-depth interviews. Stage one was exploratory in nature and used convergent interviewing techniques with automotive franchising experts including lawyers, franchised dealers, dealers' representative bodies, and car manufacturers. Stage two consisted of case studies of nine dealerships.

11. **How Do Firms Protect Competitively Sensitive Information? The Case of Franchising**
    Francine Lafontaine, University of Michigan, USA
    Lorenzo Luisetto, University of Michigan, USA
    J.J. Prescott, University of Michigan, USA

Several studies have shown that various contract clauses, including noncompete agreements, can have a detrimental effect on employee mobility. This has led to public policy discussions about whether such covenants should be banned in some contexts. While such concerns are real, these clauses also can serve legitimate business purposes. This paper explores the use of several covenants, including noncompete but also confidentiality and non-recruitment clauses, in franchise contracts. Specifically, we rely on a sample of contracts obtained from franchise disclosure documents (FDDs) for a set of 297 franchisors whose FDDs are available circa both 2010 and 2020. We show that many of the contracts impose noncompete, confidentiality and non-recruitment requirements on franchisees, but also on other individuals, notably the franchisee's business partners as well as family members, and, in a smaller set of cases, managers and employees. Several franchisors moreover require that such individuals sign their own, separate covenants. We also find that the extent to which franchisors use these covenants has not changed much between 2010 and 2020, with the exception of non-recruitment clauses. Finally, we find that the reliance on these covenants varies across industries and chains in ways that are consistent with a goal of protecting intellectual property.

12. **Franchisee Well-Being: The Roles of Entrepreneurial Identity, Autonomy Perceptions, and Franchisor Management Practices**
    Anna Watson, Edinburgh Napier University, UK
    Christof Backhaus, Technische Universität Braunschweig, Germany
    Assâad El Akremi, University of Toulouse Capitole, France
    Karim Mignonac, University of Toulouse Capitole, France
    Rozenn Perrigot, University of Rennes, France

Using two-level data drawn from franchisors and their franchisees, this paper explores how both individual and work characteristics influence franchisee mental well-being. Franchising is a unique work context in which to examine the mental well-being of franchisees, given their quasi-independent status. Drawing on the Job-Demands Resource Model, we examine how a key tension in franchise systems – the desire for autonomy by franchisees and the need for standardization by franchisors – impacts the emotional exhaustion that franchisees experience. We find that franchisees who self-identify as entrepreneurs and who are granted greater autonomy suffer less emotional exhaustion.

Interestingly, our results also show that franchisees who are members of systems with strong operating routines (which should counteract autonomy perceptions) experience less emotional exhaustion, suggesting that routines can be important in reducing job demands. Our findings have a number of practical implications for franchisors. In particular, franchisors should favor franchisees with prior industry experience, which we found to be positively associated with franchisee mental wellbeing, and should not avoid entrepreneurial franchisees – as often suggested.

13. **The Franchise Marketing Funds Piggy Bank! A Comparison Between Australian and Swedish Law**

Jenny Buchan, UNSW, Australia
Anders Fernlund, University of Stockholm, Sweden

Franchisees pay marketing funds, administered, and controlled by franchisors. Franchisees believe the funds will be used for the benefit of their business. This paper discusses opportunism concerning marketing funds, identifies the current regulatory approaches in Australia's common law and Sweden's civil law systems and proposes solutions to distribution of the funds if the franchisor becomes insolvent. A new low for Australian franchisees was plumbed when the government's Fair Entitlements Guarantee scheme gained access to marketing funds to pay an insolvent franchisor's employees rather than the fund proceeds being refunded to franchisees that contributed to it. Sweden has not experienced any major cases in this area, due to a more fundamental view on freedom of contract and handling of accounting funds. This paper presents a comparison between Australian and Swedish law, or rather a comparison between common law and civil law with examples from Australia and Sweden, countries where the authors are active. In common law jurisdictions courts rely on judicial decisions and precedents set by previous court rulings. In civil law jurisdiction the primary base for the courts are the codified laws and statutes, with less reliance on judicial precedent. In common law jurisdictions legal codes are generally less comprehensive and detailed, whereas in civil law jurisdictions legal codes are extensive and comprehensive, covering a wide range of legal matters. As we can see from the examples in this paper there are more details regarding the cases presented from Australia, whereas in the cases from Sweden the legal principles are more essential.

14. **Managerial Overconfidence, Firm Performance, and the Mediating Role of Organizational Structure: Evidence from Franchising**

Liwu Hsu, University of Alabama in Huntsville, USA
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Jennifer Sexton, Mississippi State University, USA

Understanding the impact of managerial biases on strategic decisions and firm performance is crucial for organizational science. In the context of franchising, we examine how managerial confidence affects organizational structure and firm performance. We demonstrate that managerial confidence enhances chain performance through decisions at the outlet level. Specifically, we contend that overconfident managers are likely to increase the proportion of franchised units, despite company-owned units being more compliant, controllable, and potentially more profitable. This preference for franchising allows systems to expand quickly and gather resources, but it also strains managerial capacity, complicates coordination efforts, and heightens the risk of franchisee non-compliance. We support our hypotheses with a longitudinal analysis of publicly traded franchise chains from various industries. The implications for organizations and stakeholders are also discussed.

15. **Franchise Noncompetes: Their Legal Effect, Practical Impact, and Superior Alternatives**

Robert Emerson, University of Florida, United States

The right to work in one's chosen field is deeply rooted in the American legal tradition. Despite the great value society has historically placed on this freedom, many workers today agree to contractual limitations in exchange for business opportunities, including noncompete covenants. In the franchise context, these restrict a franchisee's ability to start or join a competing business during or after the franchise term. This paper discusses the rationale behind these clauses, examines their legality across different jurisdictions, and considers their impact on franchisees and the broader labor market. Drawing from U.S. legal history, current state and federal regulatory trends, and international comparisons, this paper argues that while noncompetes aim to protect franchisor know-how and investment, they can often be overly restrictive and legally contentious. Several alternatives are proposed, including intellectual property protections, nondisclosure agreements, and incentivization mechanisms. The paper also evaluates the role of the Federal Trade Commission in regulating noncompetes and highlights both the benefits and limitations of reform efforts, concluding that superior legal mechanisms exist to balance franchise system protection with franchisee rights and labor market freedom.

16. **Does Gibrat's Law apply to chain organizations? The case of franchising**

Steve Michael, University of Wisconsin-Milwaukee, United States
Antonio Porto, University of Wisconsin-Milwaukee, United States

How firms grow and the resulting distribution of firm sizes has been of canonical interest in industrial organization, entrepreneurship, and strategic management. A starting point for those discussions is the Law of Proportionate Effect, formulated by Robert Gibrat (1931), and subsequently called Gibrat's Law. In his model, Gibrat hypothesized that firms grow at a rate that is independent of their previous size. So small firms or large firms gain in equal proportion in any given time. The Law has been researched by a number of authors and has generally been refuted in many cases, with researchers finding that small firms typically grow faster than large firms, though it has been found to hold in some circumstances. Most studies focus on manufacturing enterprises, though services have also been examined. A yet unexplored domain is that of chains, which is surprising given they offer an ideal environment to advance our understanding of firm growth and Gibrat's Law. Chains, typically in service industries, comprise outlets operating under the same trademark and offering the same products at different geographic locations. These outlets operate on small scales with dispersed operations but benefit from centralized marketing and administration. Chain growth occurs by replicating a specific ideal outlet, differing from traditional firm growth models. This unique growth structure may influence the validity of Gibrat's Law. The complexity increases when considering franchising, where local entrepreneurs operate units under a franchisor's trademark and system. Chains often grow through both owned and franchised units, raising the question of whether Gibrat's Law applies to either, both, or the overall chain. Using data on 1,347 chain restaurants over a 40-year period (1979–2019), we find that owned units grow at a less than proportionate rate, while franchised units grow at a more than proportionate rate.

17. **Why Entrepreneurs Become Franchisees? The Role of Personal and Institutional Traits**

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Susana López-Bayón, University of Oviedo, Spain
Vanesa Solís-Rodríguez, University of Oviedo, Spain

This paper aims to study what personal and contextual characteristics differentiate collaborative entrepreneurs (franchisees) from those who have decided to go it alone (independent owners). We focus on contrasting whether the role of franchising in entrepreneurship changes depending on the entrepreneur's personal characteristics, the stage of the entrepreneurial process, and the environment's friendliness to entrepreneurship. Using a unique dataset based on the Global Monitoring Entrepreneurship (GEM) survey, the results show that younger entrepreneurs and those in the earliest stages of the business process are the most likely to use franchising. These findings are consistent with a dynamic perspective of entrepreneurship in which franchising functions as a school of entrepreneurship. Furthermore, we observe that franchising is used more in environments where the institutional context is less favorable to entrepreneurship, probably because it helps legitimate entrepreneurs' initiatives. However, results do not support the idea that franchisees are less entrepreneurially oriented than independent owners. Finally, we do not find that cultural factors impact the choice of entrepreneurship form either.

18. **Speak for Yourself: Franchises, Advertising, and Speech**

Robert Emerson,University of Florida, United States

Franchise systems invest great resources into building and advertising their brands, so as to cultivate a favorable image in the minds of potential customers. The rise of internet and social media marketing has made it easier for brands to reach their customers, and has led to creative ways of connecting with the public. While this new marketing environment has opened opportunities for business, it has also amplified the negative effects that a marketing blunder or miscommunication can have on a brand. As political discourse in the United States has become more polarized, the perception that a brand or its representative has wrongly or at least foolishly adopted political stances which swiftly damage the brand. This impact is of particular concern in franchising, because both franchisors and franchisees depend on the strength of the franchise brand to drive business, and both groups invest resources to generate goodwill for that brand. The reliance on this shared brand means that any political speech by a franchisor's spokesperson or by an individual franchisee can harm the entire system. Moreover, while the First Amendment protects the right of individuals and businesses to engage in political speech, some restriction on this speech for franchisees and franchisors is likely desirable for the overall health of a franchise system. As explored in this article, franchise participants have legal remedies to recover from damaging speech, although the franchise agreement itself may not be an effective means of controlling franchisee speech. Instead, franchise participants should communicate and set clear standards for what types of expression will or will not be acceptable.

19. **Multi-Unit Franchising: Alternative Approaches to Protect Vulnerable Franchisees**
Robert Emerson, University of Florida, United States
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Multi-unit franchising is growing rapidly in the United States. This increase in multi-unit franchising over more traditional single-unit franchising models calls for new regulations to protect franchisees choosing to embark upon a multi-unit franchise arrangement. The United States, however, has not recognized the special circumstances of multi-unit franchisees compared to single-unit franchisees as well as the obstacles that all franchisees face when opening multiple franchises. As a result, U.S. regulations fail to provide enough protection for prospective multi-unit franchisees, whether sophisticated or unsophisticated. This Article focuses on the advantages of switching to a multi-unit franchising model and the benefits of a multi-unit business from the perspectives of both franchisors and franchisees. Next, this Article analyzes the lack of protection the United States provides to multi-unit franchisees. This lack of protection is based on the mistaken belief that most multi-unit franchisees are sophisticated and on an equal playing field with franchisors. Finally, this Article discusses solutions to the problems associated with multi-unit franchising by examining how upgraded disclosures, enhanced regulation of development schedules, and extensive guidance from other nations' laws would better protect multi-unit franchisees and, in general, improve franchising overall.

20. **The role of the human in the loop: The case of franchisee agency costs in product assortment planning with predictive analytics**
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Isabella Grabner, WU Vienna, Austria
Karen Sedatole, Emory University, United States

Prior research documents the value of discretion by a "human in the loop" to add context-specific information in decisions based upon the output of a predictive analytics model. We extend this research by examining the role that human intervention plays in the management of agency costs. We use proprietary data for product assortment planning decisions from a corporate automotive parts retailer with both company-owned and franchisee-owned stores. We find evidence of franchisee moral hazard in the form of inventory underinvestment, on average, that is mitigated by a corporate (i.e., franchisor) central planning "analyst" who specializes in assortment planning decisions. Specifically, franchisees who exercise discretion over the centralized predictive analytics model product stocking recommendations exhibit a lower tendency to stock products in their own stores as compared to when analysts make stocking decisions for franchise stores, and even lower as compared to when analysts make stocking decisions for company-owned stores. However, we find cross-sectional differences in the role for analysts to mitigate franchisee inventory underinvestment. Franchisees with a larger portfolio of stores exhibit similar propensities for product stocking as compared to analysts (i.e., less inventory underinvestment). We interpret this as larger franchisees, because they are more diversified and likely have fewer budget constraints as compared to smaller franchisees (e.g., those who own a single store), having incentives better aligned with the franchisor. On the other hand, franchisees with stores farther from franchisor corporate headquarters for which corporate monitoring is more costly exhibit a greater tendency to underinvest in inventory, relative to franchisees with stores closer to headquarters. Analysts play a more prominent role in mitigating inventory underinvestment in stores farther from franchisor headquarters. Our study provides novel evidence on the role of the human in the loop, moving beyond informational advantages and emphasizing the value in mitigating agency costs.

21. **Have Plain Language Laws Kept Up with the AI Revolution? The Case of Franchising**
Uri Benoliel, College of Law and Business, Israel

In the U.S., numerous plain language laws, requiring drafters of legal documents to use clear language, have been enacted. The ubiquity of these laws emphasizes a nationwide commitment to clarity and accessibility in essential documents. This article empirically explores the potential of innovative AI-writing assistants to enhance the readability of texts governed by these laws. To achieve this, the study focuses on testing the extent to which AI-writing assistants can enhance the linguistic quality of important Franchise Disclosure Documents (FDDs), subject to federal plain language regulations. Specifically, it evaluates the potential of Grammarly, a leading AI-writing assistant, to improve the readability of FDDs drafted by major quick-service restaurants such as McDonald's, KFC, and Burger King, under the federal Franchise Rule. The quantitative and qualitative results of this study indicate that AI-writing assistant tools can significantly improve the comprehensibility of documents subject to current plain language laws. Based on these findings, this article suggests a novel approach: integrating AI-writing assistant standards within plain language laws to enhance their effectiveness.