



## International franchising: A literature review and research agenda

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### ABSTRACT

Albeit scholars have conducted international franchising research for over two decades, our understanding of the antecedents and outcomes of this particular type of internationalization is still limited. In this article, we systematically review the literature related to international franchising and create a road map of extant knowledge. Through this review, we seek to provide a greater understanding of the use of theories, methodologies, and the emergent phenomenon of international franchise partnerships in multiple industries. Additionally, we detected inconsistencies in paradigms that allowed us to offer suggestions for future research. Among the opportunities for future research in the area of international franchising, constructs such as cultural sensitivity, institutional distance, management motivation, network complexity and financial performance need further attention.

### 1. Introduction

Franchising has become a popular global format of doing business in a number of industries. Franchising is a form of licensing whereby a parent company, the franchiser (franchisor), grants an independent entity, the franchisee, the right to do business in a prescribed manner (Czinkota, Ronkainen, & Donath, 2004). Small and medium sized firms have used this method to expand their business for over 100 years (Dant & Grünhagen, 2014; ITA, 2016). Researchers report that franchising has become a popular way for domestic and international expansion of firms from Australia (Frazer, Merrilees, & Wright, 2007), Spain and newly industrialized countries (Alon & McKee, 1999) while international franchising continues to be one of the most popular distribution channel for U.S exports. Respectively, this business format has received substantial academic attention.

Domestic and international franchising literatures have focused on investigating two main questions: *What are the franchising determinants?* (e.g., profit-seeking, market saturation, strong competition, etc.) (Alon & McKee, 1999; Elango, 2007; Madanoglu, Alon, & Shoham, 2017) or explaining: *Why domestic firms (do not) engage in international franchising?* (e.g., resource constraints, lack of foreign knowledge, limited growth prospects, etc.). International franchising researchers have explored various constructs and variables through five different streams of literature: *Macro-Perspective, Micro-Perspective, Governance Mode, Franchisor-Franchisee Relationship and Driving Forces*. Despite some similarities between domestic and international franchising literature, we

found three main significant differences between them. The first difference is the legal context in which domestic franchising occurs. For instance, in the United States & Australia, there are institutions such as International Franchise Association (IFA) and Franchise Council of Australia (FCA) that lobby on behalf of their constituents (Atwell & Buchan, 2014). Similarly, there is abundant legal & public documentation about franchise contracts and conflict resolutions. These conditions place these countries as more stable and reliable for franchising because they provide the necessary regulatory framework for resolving potential conflicts between a franchisor and a franchisee. This scenario is different when firms engage in international franchising. Diverse legal traditions and law enforcement practices across countries, the risk of intellectual property and trademark loss increase the level of uncertainty in international franchising (Kedia, Ackerman, & Justis, 1995). The second significant difference between domestic and international franchising concerns the level of control in the system. Domestic franchisors typically aim for more control over their franchisees than international franchisors, which typically rely on a more collaborative relationship with their franchisees and allow more autonomy (Paik & Choi, 2007). This trust-based relationship takes us to the third significant difference between domestic and international franchising. The relatively common collaborative relationship between the international franchisor and franchisee suggests that knowledge and learning become important components of the business model (Madanoglu et al., 2017). These characteristics position international franchising studies as an independent stream of literature, separate

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from both the domestic franchise literature and the broader entry-modes literature.

International franchising involves more complex dynamics than domestic franchising especially in respect to franchise network configurations. While the key players in a franchise network are still the franchisor and its franchisees, 21st century international franchisors operate within an inter-connected web of relationships, which they do not always control such as market and institutional forces and political constraints, among others. Internationally there is very limited adoption of direct franchising due to the high monitoring costs involved. A more common agreement is for instance master franchising, where a third party is granted the rights to develop and monitor a particular geographic market (Alon, 2006). This type of contracts is very complex and can require more local adaptation in aspects such as the calculation of royalty and franchise fees, among others (Lafontaine & Oxley, 2004). All this increases uncertainty and complicates performance evaluation in international franchising (Buchan, 2014).

During the past two decades, there have been several review articles of international franchising literature (Combs, Ketchen, Shook, & Short, 2011; Combs, Ketchen, & Short, 2011; Combs, Michael, & Castrogiovanni, 2004b; Doherty & Quinn, 1999; Merrilees, 2014; Welsh, Alon, & Falbe, 2006). For example, Combs et al. (2004b) contrasted agency theory and resource scarcity theory against three constructs: franchise initiation, subsequent propensity to franchise and franchise performance. Welsh et al. (2006) focused their review on retail franchising in emerging markets. Combs et al. (2011) focused on franchising antecedents, consequences, and factors moderating these relationships. Combs et al. (2011) published another review the same year focusing on the resource scarcity theory and agency theory to provide directions for future research. Merrilees (2014) divided past research into three chronological phases and provided a theoretical overview of the franchise literature. Albeit informative, these reviews suffer from the same critical shortcoming: they only review a fraction of the literature and theories applied, thus provide a valuable yet somewhat limited overview of the field. We seek to provide a more comprehensive and critical overview of the theories used in the area of international franchising research published by 2016. Another critical limitation of past reviews is the singular focus on franchisors' motives for internationalization and the general lack of attention to the dynamics of franchise partnerships, despite their growing relevance in international franchise practice and research. As suggested earlier, the popularity of the collaborative type of relationships in international franchising requires a closer and more critical attention to issues such as the suitability of theories used to explain international franchise dynamics and possible future research directions.

Considering these shortcomings, first we draw a roadmap to summarize the entire international franchising research and propose a broader framework to guide scholars on what appears to deserve research attention in international franchising. For this, we follow Callahan (2014)'s review structure and use of the 4 Ws (What, Where, Why and HoW). This article is the first to consolidate, review and integrate over 100 prior studies that examine different aspects of international franchising. We believe our review is not only timely but of critical importance. It draws parallels between past studies based on the specific international franchising topics studied, theories used, industries covered, methods applied and findings reported. Prior research had mostly focused on international franchising and franchise partnerships as independent constructs. We consider them mutually inclusive and discuss possible future research avenues based on their interdependence.

In Fig. 1, we present the currently predominant one-dimensional approach of international franchising research that focuses on the franchisor perspective. We build on past research by integrating it in a more dynamic behavioral theoretical model to address possibilities for value creation and performance improvement of franchise systems. We suggest that this can be achieved by introducing a two-dimensional, franchisor/franchisee perspective. Through our detailed theoretical discussion, we demonstrate that the most frequently used theories, Agency theory, Resource Based View and Transaction Cost, fit the predominant practice of providing one-dimensional explanation of a multidimensional phenomenon. Our discussion of far less popular theories, such as Stakeholder theory or Relationship theory, show that further efforts are needed in selecting theories that deal more with the learning process in global franchise groups and address the need to present a more dynamic picture of international franchising.

The structure of this paper is as following. The next section presents information concerning the method used to identify the articles to be included in our review. Later, we present a comprehensive overview of international franchising research. Finally, we provide directions for future research.

## 2. Review design & structure

### 2.1. Review design

Following prior reviews (Canabal & White, 2008; Dikova & Brouthers, 2016; Keupp & Gassmann, 2009; Shen, Puig, & Paul, 2017) we began our investigation by searching online databases such as Ebsco Host, Jstor, Proquest, Google Scholar, Academia.edu, Research Gate.net, Sage Journals, Science Direct, Springer Link, Taylor and Francis,

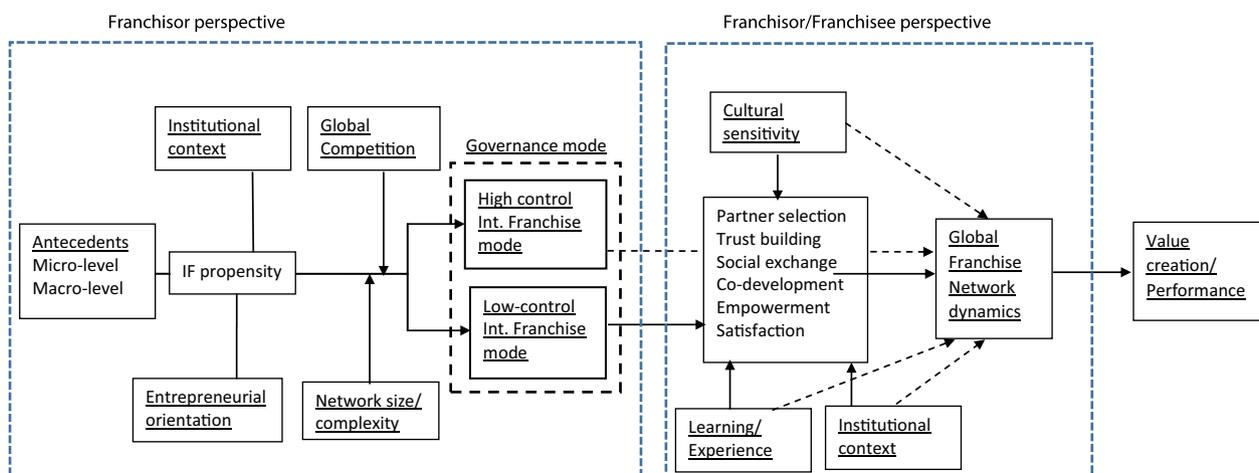


Fig. 1. Model of International Franchising (IF) research.

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