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Making Franchising Work: A Framework Based on a Systematic Review

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There is a large and fragmented literature that examines the nature of franchising. This paper aims to collect all the empirical evidence on the factors that make franchising work and to integrate this evidence in a framework. A narrative synthesis was performed of 126 peer-reviewed empirical journal articles. This review shows how the outcomes of franchising are determined by five major clusters of factors: ownership structure, business format design, contract design, behavior of the franchisor and the franchisee and their interaction, and the age and size of the system and its units. It identifies what franchisors and franchisees need to do to be successful and which evidence gaps and conflicting results remain. To yield better outcomes for both the franchisor and the franchisee, they should work on a recognizable brand name and a good working relationship; in addition, they should have suitable skills and attitudes as well as contractual exclusive territories. For further improvement of franchisee outcomes, high-quality franchisor support, decentralized decision-making, selection tools and fair contracts are essential. The effects of a high franchise proportion, active ownership, knowledge exchange and standardized operating instructions are contingent on other structural and contextual factors in the system. Conflicts and tying should be prevented. Hardly any research has been undertaken into which franchise designs are valued by customers. The authors have launched a research agenda for further research, from various theoretical perspectives, into the interactions between system elements, actors and contexts.

Introduction

In recent decades, the number of franchises in the world has increased considerably (Combs and Ketchen 2003; Fulop and Forward 1997). It is expected that franchising delivers a better financial performance, a more supportive working environment and/or higher survival chances than alternative organizational forms (Combs *et al*. 2004a; Tuunanen and Hyrsky 2001). Franchising consists of a contractual arrangement between two firms: the franchisor and the franchisee. In this arrangement, the franchisee buys the right to market goods or services under the franchisor's brand name (Blair and Lafontaine 2005; Combs *et al*. 2004a). Business format franchising is the most commonly studied form of franchise. In this format, franchisees also receive various types of support, such as an operations manual, training and on-site guidance. Franchisees have to pay for this support and they are obliged to operate their businesses as prescribed by the franchisor (Falbe and Welsh 1998; Komoto 2005.

Despite the positive expectations, failure rates of new franchise initiatives are high. In the USA, it is estimated that 50–85% of these initiatives fail (Bates 1998; Lafontaine and Shaw 1998; Shane and Foo 1999). Moreover, there is significant variation in the

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strategic and operational success of franchises. Some studies comparing franchising with alternative organizational forms show superior performance (e.g. Aliouche and Schlentrich 2009; Frew and Jud 1986; Knight 1986; Lewis and Anderson 1999; Shane 1996; Yoo *et al*. 1998), whereas others show inferior or equal performance regarding financial performance, efficiency, survival and franchisee satisfaction (e.g. Anderson *et al*. 1998; Bates 1995a, 1998; Benjamin *et al*. 2006; Grünhagen and Dorsch 2003; Stanworth *et al*. 2001).

Research suggests that at least some of these variations result from factors within franchise systems. With the use of the structure–process/conduct–outcome framework (e.g. Devaraj *et al*. 2006; Donabedian 1988; Zinn and Mor 1998), a distinction can be made between structural and process-related factors that shape results. Franchise practitioners need information about the structures and processes that can help them to be successful. Unfortunately, the evidence base is fragmented, complex and heterogeneous in terms of theoretical perspectives, methods and conceptualizations, providing only partial or even confusing advice for practitioners. Although reviews of the franchise literature have been conducted by Elango and Fried (1997), Fulop and Forward (1997) and Combs *et al*. (2004a), none of these authors has systematically built an overview that integrates all the evidence to support both practitioners and researchers. As a result, this paper has a double aim: first, to collect all the empirical evidence on the structural and process-related factors that influence the outcomes achieved within franchise systems for franchisors, franchisees and customers, and second, to bring this evidence together in an integrative framework. To this end, we have conducted a systematic review, which gives practitioners an integrative insight into why some franchises succeed, while others are less successful. Moreover, it identifies evidence gaps and conflicting results and provides a collective starting point for future research from various theoretical perspectives.

Research methods

A systematic approach was used in this review: we determined the inclusion criteria in advance, systematically searched for articles according to these criteria, and employed a systematic selection and extraction procedure. The research methods are described in detail below.

Data collection

The studies included investigated the relationship between the outcomes of franchising and franchise design or processes. *Outcomes* are defined as the results of an activity, plan or process within franchise systems. All types of outcomes were included, for example financial performance, survival, growth and satisfaction. *Design* comprises all the structural and procedural aspects of the franchise arrangement. *Processes* refer to actors' behavior and interaction with each other. Studies on the external context were included if their authors considered context in relation to design or processes. Studies were only included if they were empirical studies published in peer-reviewed journals. Studies were excluded if they only used franchising as a case in investigating a research question unrelated to franchising itself. During the selection process, no distinction was made between business format and product/trade-name franchise, because the boundaries between these two types are often blurred (e.g. Dnes 1992) and because authors frequently do not specify which type of franchise is being studied. International expansion through franchising was excluded, as this process involves quite different dynamics and managerial questions (e.g. Preble and Hoffman 2006) and requires a specific set of capabilities (Fladmoe-Linquist 1996). Including this aspect would have made the focus of this review too broad.

We searched Abi/Inform, Cochrane Library, EconLit (EBSCO), Emerald, PsycINFO, PubMed/Medline, Scopus and Web of Science for articles published before January 2011 without any other limitations with regard to publication date. The search was limited to articles in English. Every database except Emerald was searched using the term franchis* AND the following combination of terms: effect*, efficiency, impact, innovation*, outcome*, perform*, quality, satisfaction, survival, value. As Emerald did not allow a search using these truncated terms, we checked the journals included in all the databases and identified those that were unique to Emerald. We then searched the 62 unique journals within Emerald, using the term franchis*. In addition to conducting this database search, we checked the references of all the included articles to identify additional relevant articles.

To ensure a high-quality and unbiased review, three researchers were involved in the article selection and data extraction process. We started with an independent assessment and discussion of 40

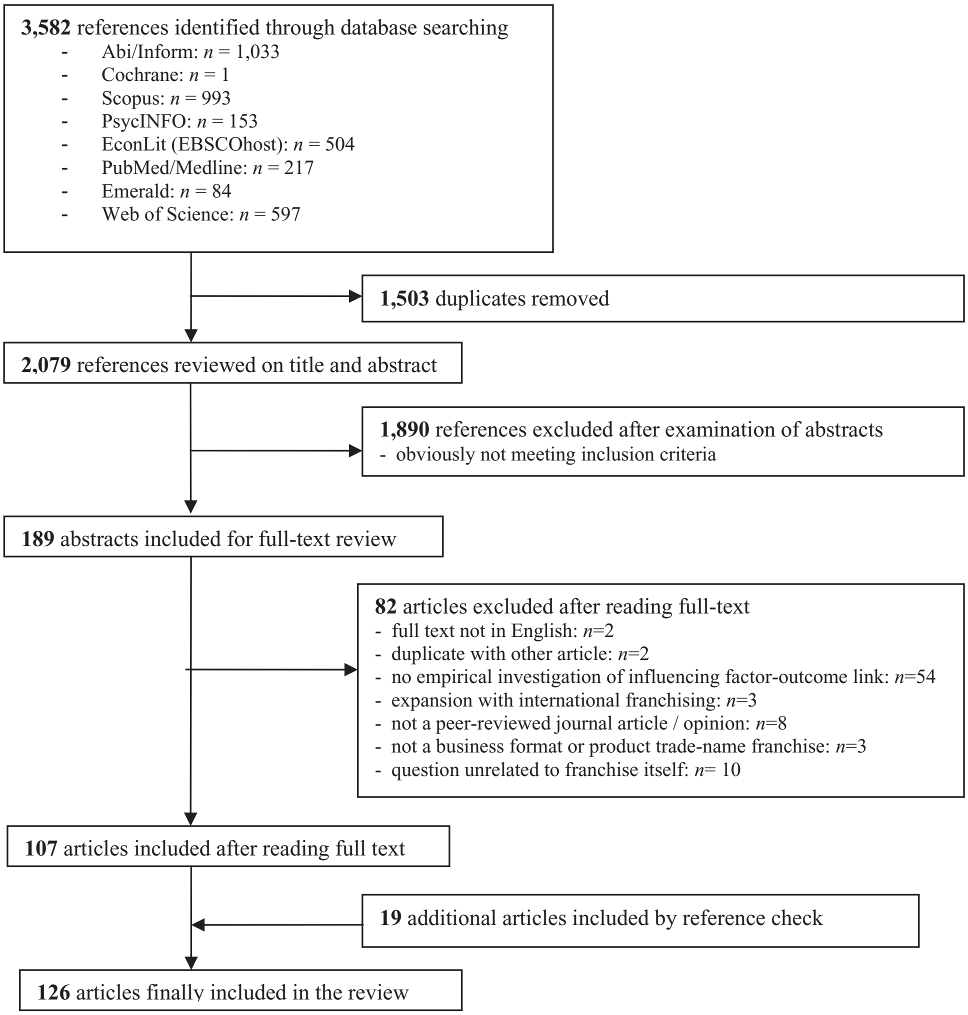


Figure 1. Selection process systematic review

abstracts by two reviewers to maximize validity. Subsequently, all databases were searched by one reviewer ($n = 3582$ hits), duplicates were removed, and the remaining abstracts ($n = 2079$) were reviewed. Abstracts with potential relevance were independently assessed by a second reviewer and doubts regarding inclusion were discussed. Many abstracts ($n = 1890$) were excluded because they obviously did not meet the inclusion criteria.[1] The resulting 189 studies were reviewed in full-text and summarized by using a semi-structured data-extraction form. If there was doubt regarding inclusion, a second reviewer was involved; in case of persistent doubt, a third reviewer was involved. This full-text reading reduced the selection to 107 articles (see Figure 1 for reasons for exclusion). By performing reference checks of the included articles, we found 19 additional relevant studies. Ultimately, 126 articles were included in the analysis (Figure 1).

Data analysis

A narrative synthesis of the review material was conducted. Owing to the heterogeneous nature of the literature, meta-analysis was not possible. In a narrative synthesis, the relationships between studies with different foci, theories and methodologies are

[1] Many abstracts were excluded because the term ‘franchising’ was used with another meaning than the business format franchises we were interested in. For example, the term ‘franchise’ is also used in the banking/ financing sector, it is used in the context of railways and other transport, and it is used in sport leagues.

thematically explored (Mays *et al*. 2005; Popay *et al*. 2006). Following the recommendations of Popay *et al*. (2006), we conducted the following steps.

First, we analyzed each study on the investigated design or process factors, operationalization of each factor, types of outcomes, operationalization of each outcome, theoretical perspective, country, industry, methodology and actor perspective (franchisor, franchisee and customer). As a second step, we clustered the factors that referred to similar design or process elements. To accomplish this clustering, we relied on the definition of franchising as described in the introduction. This approach resulted in two major factor clusters: 'contract' and 'business format'. We also determined clusters by searching in studies for aspects that are central in major franchise disciplines. From an economic/organizational perspective, the major factor 'ownership structure' was established. From a social perspective, the focus of studies is on the individual behavior of the franchisor and franchisee and on their interaction (relationship). This perspective led us to establish the fourth major cluster, 'behavior and interaction'. The last cluster of factors, 'age and size', was determined by thematically analyzing the common themes of all factors that could not be grouped within one of the other four clusters.[2] Within the five major factor clusters, sub-clusters were identified by thematically analyzing the common themes of the factors studied (see the results section). Third, outcomes related to the same type of result were clustered by sub-factor. The size and direction of each outcome were determined for every study and were summarized using the following symbols: – (negative), 0 (no difference) or + (positive). If studies did not report on the statistical significance of their findings, symbols were still used in accordance with the outcomes reported by the authors. Finally, we described the similarities and differences between the outcomes for each sub-factor and searched for the reasons for the differences using the variables from Step 1.

The designs of most of the studies did not allow us to determine causality in the analysis. Although terms such as 'influencing factors' may suggest causality, only the existence of some type of relationship can be ascertained.

Results: the state of empirical research

A total of 126 empirical studies have related design and process factors within franchising to outcomes. Aspects related to behavior and the interaction between the franchisor and the franchisee received the most attention ($n = 58$). A small majority of the studies investigated outcomes at the franchisee level ($n = 74$). Outcomes at the customer level were rarely investigated ($n = 2$). Outcomes at the franchisee level were the dominant focus in studies on the business format (35 of 49 studies) and behavioral and interaction aspects (47 of 58 studies), whereas outcomes at the franchisor level received the most attention in studies of ownership structure (28 of 34 studies). Financial performance ($n = 21$), survival ($n = 20$) and growth ($n = 12$) were the most frequently investigated outcome types at the franchisor level. Satisfaction ($n = 43$) and financial performance ($n = 27$) were most frequently considered in studies that investigated outcomes for franchisees (see Table S1 in the online supporting information for a more extensive overview).

One-third of the studies used the restaurant/food industry as empirical setting, either alone or in combination with one or two other industries. Another substantial number of studies ($n = 57$) conducted their research in multiple industries. Studies were conducted in 17 countries, predominantly in North America and the UK (67%) and countries in continental Europe (17%). Only nine studies were conducted in Asian or South American countries. Research on franchising in the US was ample (>60%).

More than one-third of the articles employed an economic perspective (35%). A quarter of all studies used agency theory as their theoretical perspective. A substantial number of studies ($n = 38$) did not mention a theoretical perspective; instead, these studies constructed the theoretical foundation for the research based on prior research findings or undefined theories (Table 1).[3]

The majority of the studies employed quantitative designs ($n = 101$). The studies vary widely in sample

[2]Many studies have included size and age variables as control variables in their studies. As such, size and age were not used as criteria for initial selection, as doing so would have included many studies that were otherwise not relevant. This paper therefore only reports on studies in which age and size were used as control variables if these studies were also included for one of the other four factor clusters.

[3]See Table S1 in the online supporting information for a more detailed overview of the state of empirical research

Table 1. *Summary of empirical research on outcomes of factors within franchising (%)*

Region	Sector	Research design	Type of theory
North America: 62 Europe (incl. UK): 22 Oceania: 9 Asia: 5.5 South America: 1.5	Restaurant/food: 32 Hotel: 6 Other: 19 Various: 43	Quantitative: 80 Qualitative: 13 Mixed methods: 7	Economic: 35 Organizational: 15 Social-psychological: 19 Learning: 4 Not specified: 26

size. Of the 101 studies, 28 studies investigated outcomes longitudinally. The qualitative ($n = 16$) and mixed-method ($n = 9$) studies also differed greatly in terms of the number of interviews used. Our subsequent analysis considers these methodological differences as possible explanations for the mixed outcomes that resulted from these studies.

Results: a framework of factors related to outcomes of franchising

As described in the data-analysis section, the analyses show that five major factors with multiple sub-factors are related to outcomes of franchising: the ownership structure that is chosen for the system and the units, the design of the business format, the design of the contract, the behavior of the franchisor and the franchisee and their interaction, and the age and size of the system and the units. We have mapped all these factors into a comprehensive framework with the five major factors as major building blocks and the sub-factors as the content of these blocks (see Figure 2). The results section of this paper is further structured along these five blocks of the framework.

A: The influence of ownership structure

Our analysis shows that outcomes are related to four choices regarding ownership structure (see Block A in Figure 2): whether both the franchisor and franchisees or only the franchisees own units (plural form vs pure franchise); the proportion of units owned by franchisees; whether each franchisee owns one or more units (single-unit vs multi-unit ownership); and whether the responsibility for the daily operations of the unit is delegated to a unit manager or not (passive vs active ownership). Structured information about each individual paper can be found in Table S2 in the online supporting information.[4]

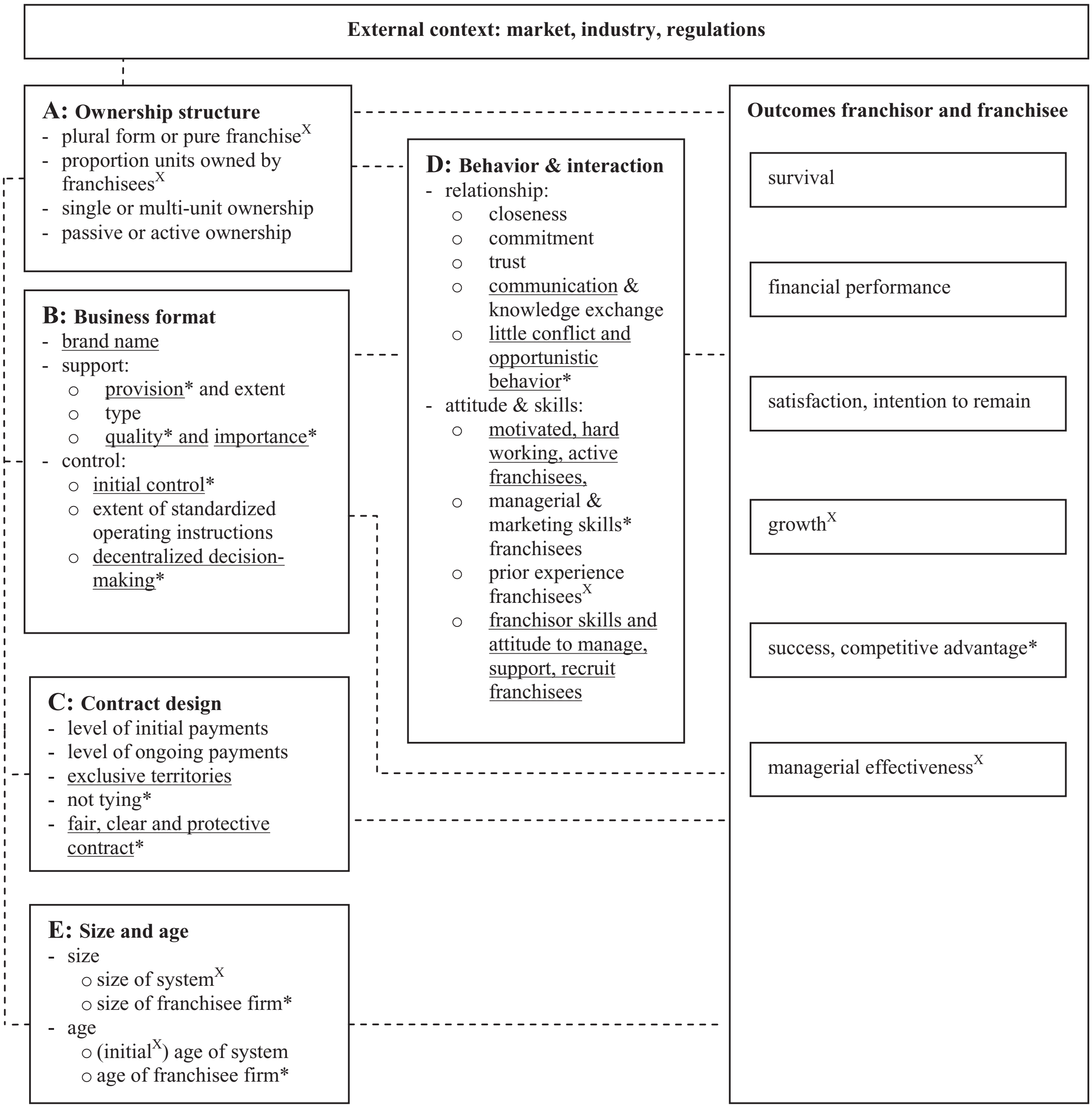
Plural form vs pure franchise. Ten studies have compared the outcomes of plural forms with those of pure franchises. These studies were conducted in the US ($n = 5$), France ($n = 4$) and Spain ($n = 1$). Seven studies used the restaurant/food industry as the empirical setting. All studies focused on the outcomes for the franchisor.

Four studies found that plural forms are more managerially effective because innovation, uniformity and economic efficiency are more attainable. The franchisees contribute to innovation because they have a greater incentive to perform well as independent entrepreneurs. The company-owned units facilitate the dissemination of innovation and help to increase uniformity, because they can be used as pilot sites that persuade franchisees to adopt new practices and as training sites for new franchisees. The use of the same control system further enhances uniformity (Bradach 1997; Cliquet 2000; Cliquet and Croizean 2002; Dant and Kaufmann 2003). Cliquet (2000) and Cliquet and Croizean (2002) found that the combined use of franchisees and company-owned units also leads to greater economic efficiency.

Besides managerial effectiveness, one study also found that the plural form outperforms pure franchise with regard to franchisor survival (Bordonaba-Juste *et al*. 2009). With regard to efficiency and financial performance, the results are mixed. Perrigot *et al*. (2009) found that plural forms are more efficient than predominantly pure systems,

with regard to theoretical perspectives, countries, industries, outcome types and methodology for the total base of articles and for each factor cluster.

[4]The electronic version of this paper contains extensive tables with information about each of the individual articles that studied a factor (tables include information about the factor and operationalization, actor, outcome type and operationalization, industry, country, theory/perspective, method).



x = on franchisor level only
* = on franchisee level only
_ (underlined) = impact consistently positive for all outcomes

Figure 2. Model of factors related to outcomes based on review

whereas Botti *et al*. (2009) found no significant difference. These contradictory results may be caused by differences in methodology, as Perrigot *et al*. (2009) used more variables to measure efficiency and employed a different cut-off point for the plural form measure. Regarding financial performance, both Hsu and Jang (2009) and Koh *et al*. (2009) found that franchisors gain more financially in plural forms. Srinivasan (2006) found this only to be true for some franchisors. For certain chains, intangible value is unaffected, and small chains may even experience weaker financial performance if they also have high financial liquidity and a lasting advertising strategy (Srinivasan 2006). All three studies considered the same outcome, industry and country; however, the study by Srinivasan was conducted earlier and used a larger sample and study period than the study by Koh *et al*. (2009). Moreover, Srinivasan considered contingent variables other than those used in the other two studies. Despite the overall greater effectiveness, franchisors with a plural form also meet with difficulties (Cliquet 2000). The franchisors' interests associated with managing franchisees and company-owned managers are not always aligned, the risk of conflicts and management problems are higher, and demotivation and anxiety among franchisees is more common.

Proportion of units in chain owned by franchisees. Fourteen studies evaluated the optimal proportion of units owned by franchisees in plural form chains. These studies were conducted in the US ($n = 11$), France ($n = 1$) and Spain ($n = 2$). Half of the studies were conducted in the restaurant/food industry. Eleven studies employed an agency perspective, either exclusively ($n = 1$) or in combination with another perspective ($n = 10$).

Two studies give estimates of the optimal proportion. As the targeted outcome and studied countries differ, so does the estimated proportion. The ideal proportion for survival in the Spanish restaurant industry was around 69% (Bordonaba-Juste *et al*. 2009), whereas the ideal proportion for financial performance in the US restaurant industry was between 37 and 46% (Hsu and Jang 2009). Other studies made more general claims and found that a higher franchise proportion yields lower customer satisfaction and financial performance (O'Neill and Matilla 2004; O'Neill *et al*. 2006). The effects on growth are unclear; whereas Shane *et al*. (2006) and Sen (1998) found a positive relationship between proportion and growth, Kosová and Lafontaine (2010) found a negative relationship.

Various studies found that the optimal proportion is contingent on the environment, strategy, business format characteristics and system age. With regard to the environment, franchisors have higher financial outcomes and survival rates if they increase their franchise proportion (1) if their units are widely dispersed in different geographical markets (Hsu and Jang 2009; Sorenson and Sørensen 2001; Vazquez 2007), (2) if they have started their operations in a strict legal environment (Shane and Foo 1999), or (3) if they were one of the first entering franchise firms on their market and are currently relatively mature (Bordonaba-Juste *et al*. 2009). With regard to strategy, franchisors perform better financially if they align their franchise proportion with their financial and marketing strategies (Srinivasan 2006) and do not use franchising as a strategy to gather resources, as such an approach prevents a proper fit between on the one hand proportion and on the other hand business format characteristics and geographical dispersion of units (Combs *et al*. 2004b; Ketchen *et al*. 2006). With regard to the business format, if franchisors have highly valuable resources (Barthelemy 2008; Vazquez 2007) or tacit business practices that cannot be specified in the operations manual (Barthelemy 2008), they obtain better financial and survival outcomes if they reduce their franchise proportion. Franchisors should increase the proportion if local knowledge is important in applying the business format on unit level (Vazquez 2007). With respect to age, Kosová and Lafontaine (2010) found that, in order to enhance their survival chances, it is better for young systems to use a lower franchise proportion than mature firms.

Two US studies investigated whether company-owned units or franchised units are more suitable at the unit level, given a particular environment and strategy. Vroom and Gimeno (2007) found that chains have a greater advantage with company-owned units than with franchised units in concentrated markets, as company-owned units can generate higher revenues in such a situation. Yin and Zajac (2004) found that franchised units require complex rather than simple strategies for optimal financial performance, and that the opposite is true for company-owned units.

Single-unit vs multi-unit ownership. Nine studies investigated the outcomes of single-unit vs multi-unit ownership. All these studies were conducted in the US, and most took a franchisor perspective ($n = 7$) and employed agency theory ($n = 6$).

For franchisees, owning multiple units is more advantageous than owning only one. This results in better survival rates (Bates 1998) and lower production costs because production experience is more easily transferred between units belonging to the same owner (Darr *et al*. 1995). For franchisors, the results of multi-unit franchising are more equivocal. It lowers the chances of survival for new franchisors (Shane 1998), but increases them for larger franchisors (Shane 2001). Multi-unit and single-unit systems are similarly productive (Thompson 1994). Three of the four studies on system growth found positive effects (Bradach 1995; Kaufmann and Dant

1996; Kaufmann and Kim 1995). However, the study with the largest sample (1201 as opposed to 169, 152 and 5 systems in the other three studies) did not find a significant effect in this regard (Clarkin and Rosa 2005). According to Bradach (1995), multi-unit franchises can grow more easily because the re-use of existing franchisees implies that the franchisor receives the same fees, while fewer resources have to be allocated to finding franchisees for new units. Moreover, he found that multi-unit franchisees make the system more effective by facilitating system-wide adaptation because franchisors have to persuade fewer franchisees to implement changes. However, these franchisees are slightly less effective in terms of local responsiveness (Bradach 1995).

Passive vs active ownership. Passive ownership and multi-unit ownership are closely related; after all, when franchisees own multiple units, passive ownership must be allowed. However, four studies also considered specifically whether passive ownership is related to outcomes. Three of these studies employed an agency perspective and were conducted in the US. For franchisees in older and larger US restaurant chains, passive ownership is disadvantageous for their survival chances (Michael and Combs 2008). For franchisors, the findings on survival are less straightforward. Although Shane (1998) found lower survival in systems that adopt passive ownership, Vazquez (2009) showed that such ownership is only negative in systems in which the operations manual is not specific and local knowledge is highly important. With regard to system growth, Clarkin and Rosa (2005) showed a positive effect.

B: The influence of the business format

Besides ownership structure, the business format appears the second influencing factor. Studies show that the outcomes of franchises are determined by the brand name, the format facilitators directed at support, and the format facilitators directed at control. Format facilitators are the operating and management structures that should ensure that franchisees deliver the products and services required by the franchisor (Kaufmann and Eroglu 1998) (see Block B in Figure 2 and Table S3 in the online supporting information).

Brand name. All studies on the brand name ($n = 10$) reported the positive effects of a strong recognizable brand name, regardless of the country or sector of investigation and the theoretical perspective that was used. For franchisors, the brand name is positively related to profits, sales, growth and survival (Gillis and Combs 2009; Inma and Debowski 2006; Shane and Spell 1998). For franchisees, it has a positive impact on satisfaction, success and survival (Falbe and Welsh 1998; Hing 1996; Knight 1986; Michael and Combs 2008; Pitt *et al*. 2003; Tuunanen and Hyrsky 2001; Watson and Johnson 2010).

Support. The studies on the influence of the support provided to franchisees ($n = 49$) considered the role of the provision and the extent of the support, the type of support, and the quality and importance of the support. Studies on the outcomes at the franchisee level ($n = 35$) and of franchisee satisfaction ($n = 24$) were the most common.

Irrespective of the industry, the country and the operationalization of the support provision, studies always show positive effects on franchisee satisfaction, financial performance and survival (Abdullah *et al*. 2008; Dubost *et al*. 2008; Frazer and Winzar 2005; Hing 1995, 1999; Rajagopal 2007; Roh and Yoon 2009; Tuunanen and Hyrsky 2001). However, franchisees' valuation of the support provision generally decreases over time (Grünhagen and Dorsch 2003; Tuunanen and Hyrsky 2001). The extent of the support provided also contributes to positive outcomes for franchisees. Franchisees are more satisfied and perform better financially if they are offered a large amount of support (Knight 1984, 1986; Minguela-Rata *et al*. 2009, 2010). In contrast, offering extensive support is not directly beneficial for the franchisor. In Australia, it was found to have no impact on disruption rates (Frazer 2001a; Frazer and Winzar 2005), and in the US, it even had negative effects on survival rates (Shane 1998, 2001; Shane and Spell 1998).

The type of support provided to franchisees matters more for franchisors than for franchisees. Studies on the franchisee level all show positive or neutral effects of different support types; no type of support has negative effects. All studies on franchisee satisfaction found positive effects, irrespective of the type of support studied. Training (Hunt 1973; Lusch 1977; Merrilees and Frazer 2006), franchisor representatives (Lusch 1977), assistance in seeking suitable locations, product development and a ready-made concept (Hing 1996) are all positively related to satisfaction. Marketing and brand support were also found to have a positive effect on satisfaction in various industries (Hing 1996; Lusch 1977; Merrilees and Frazer 2006), although high-performing franchisees value these support types more than lower performers (Merrilees and Frazer 2006). Nevertheless, not all support types have unequivocal positive effects on the financial performance and survival rates of franchisees. Financial assistance was found to have no impact on financial performance (Churchill and Hunt 1973), whereas training was found to have a positive effect on both financial performance (Michael and Combs 2008; Minguela-Rata *et al*. 2010) and survival (Michael and Combs 2008). Kalnins and Mayer (2004) found that the survival of restaurant franchisees can be improved by transferring local knowledge to franchisees, but not by transferring experience gained non-locally.

Studies on the franchisor level show more mixed results for the different support types. With regard to survival, Shane (2001) found positive effects of training, communication services and assistance to franchisees in seeking suitable locations. However, Grünhagen *et al*. (2008), who studied the relationship between multiple support types and the closing or conversion of outlets, found no effect of any support type in the US. In Germany, only insurance had a positive survival effect, whereas newsletters, internet services and field visits even resulted in more disruption (Grünhagen *et al*. 2008). Regarding system growth, the effect of support types is also mixed. Shane *et al*. (2006) found a positive effect of providing financial assistance to franchisees, although Clarkin and Rosa (2005) found no effect. Similarly, Leblebici and Shalley (1996) showed a positive effect of mechanisms to support the franchisor and franchisees in managing their working relationship, whereas Dandridge and Falbe (1994) found that this support type had no effect on growth. The only study on success, by Yang *et al*. (2005), found some indication that separate headquarters for innovation and administration with an ample support staff dedicated to innovation positively correlates with success.

Moreover, the quality of the support offered favorably affects franchisee outcomes. Six studies found positive relationships with satisfaction (Huang and Phau 2009; Hunt and Nevin 1974; Lewis and Lambert 1991; Morrison 1996; Spinelli and Birley 1998) and success (Falbe and Welsh 1998), irrespective of the country, sector and operationalization used. Falbe and Welsh (1998) even reported that franchisors found system quality to be the most important factor in franchisee success. Franchisee satisfaction also increases when franchisees perceive the support to be instrumental (Lusch 1977; Yavas and Habib 1987) or helpful (Michie and Sibley 1985). The influence of instrumental support on satisfaction is stronger if the quality of that support is high (Yavas and Habib 1987). Interestingly, different franchisees within the same system can attach different quality and importance levels to the same support, resulting in different satisfaction levels (Huang and Phau 2009).

Control. Fifteen studies considered the influence of format facilitators directed at control. These studies considered the role of initial control, standardized operating instructions and (de)centralized decision-making. Studies at the franchisee level ($n = 10$) and with franchisee satisfaction as an outcome ($n = 7$) were the most common.

Six studies indicated that the use of disclosure information and assessment methods to initially select franchisees with the right attitudes and expectations ultimately leads to greater franchisee satisfaction (Hing 1995, 1999; Roh and Yoon 2009; Tuunanen 2002) and success (Morrison and Lashley 2003), but not to more system growth (Clarkin and Rosa 2005).

Five studies showed that greater use of standardized operating instructions for franchisees has no negative effects on franchisee outcomes but has mixed effects on franchisor outcomes.[5] At the franchisee level, both Kidwell *et al*. (2007) and Knott (2003) found that franchisor requirements regarding the use of specific practices and procedures positively contribute to financial performance. Kidwell *et al*. (2007) found that this positive effect occurred because the use of instructions curbed free-riding behavior among franchisees. Free-riding means ‘cutting costs by lowering product or service quality’ while profiting from the brand reputation of the franchisor (Kidwell *et al*. 2007, p. 523), especially in cases of non-repeated trade. However, Komoto (2005), who only considered the effect of strictly following the operations manual, found that this strategy has no universal positive effect. In fact, it enhanced the financial performance of franchisees during their first five contract years, but not in later

[5]Although various authors have also included the operations manual as a support service (previous section), it also has an important control function. It is both a support and a control tool.

years when local adaptation became performance-enhancing. At the franchisor level, the effects on financial performance depend on the ownership type. Significant investment in developing standardized operating routines enhanced performance in pure franchises, but reduced performance in plural form chains (Gillis and Combs 2009). One small-scale study found that a high level of standardization had no effect on growth (Leblebici and Shalley 1996).

Five studies considered the impact of the extent of decentralized decision-making. At the franchisor level, centralized services decreased the exit chances of large systems: the larger the system, the larger the effect (Shane 2001). However, at the franchisee level, decentralization of decision-making yields better outcomes. Irrespective of operationalization, industry and country, it is related to more perceived competitive advantage (Baucus *et al*. 1996), satisfaction (Baucus *et al*. 1996; Schul *et al*. 1985; Tuunanen and Hyrsky 2001), and a better financial performance as a result of less free-riding behavior (Kidwell *et al*. 2007).

C: The influence of contract design

The design of the contract is the third factor that influences outcomes. Besides provisions about format facilitators, six other contract elements were investigated: initial payments, ongoing payments, contract length, exclusive territories, tying and fairness (see Block C in Figure 2 and the online Table S4). Of the 37 studies, 75% were conducted in the US. Various industries were used as empirical setting.

Level of initial payments. Seventeen studies considered the effects of the level of initial payments at the franchisee ($n = 7$) and franchisor ($n = 10$) level. Initial payments are payments made by franchisees before they can open a new unit. All but one of the studies were conducted in various industries in the US.

At the franchisee level, three studies found the level of initial payments to be positively related to income (Churchill and Hunt 1973) and survival (Bates 1995b; Frazer and Winzar 2005). Other studies reported negative and neutral relationships (Holmberg and Morgan 2003; Jambulingam and Nevin 1999; Michael and Combs 2008). At the franchisor level, initial payments also have mixed effects. The effect on survival tends to be different for different types of payments. Higher levels of cash investment are positively related to the survival of new and large franchisors (Shane 1998, 2001), whereas most studies found that the level of total investment/start-up costs had no effect (Castrogiovanni *et al*. 1993; Kosová and Lafontaine 2010; Lafontaine and Shaw 1998; Shane 1996, 1998). Kosová and Lafontaine (2010) even found a negative relationship, especially for mature firms. Only Shane and Foo (1999) found a positive survival effect of start-up costs in states in which new systems are obliged to register. Initial payments also seem to have mixed effects on growth, as negative, neutral and positive relationships were identified in various studies (Castrogiovanni and Justis 2002; Kosová and Lafontaine 2010; Shane 1996; Shane *et al*. 2006). Only one study considered financial performance and concluded that start-up costs should be relatively low (Gillis and Combs 2009).

Level of ongoing payments. Nineteen studies investigated the influence of the level of ongoing payments. Although it is frequently argued that payments serve as an incentive for franchisees, in practice, higher levels of ongoing payments rarely have a positive effect at the franchisee level. On the contrary, predominantly negative relationships have been found with survival (Michael and Combs 2008), financial performance (Frew and Jud 1986) and satisfaction if the franchisees perceive the payments as too high (Abdullah *et al*. 2008; Frazer *et al*. 2007a; Hing 1996; Knight 1986; Tuunanen and Hyrsky 2001). Only Benjamin *et al*. (2007) found that the effect on financial performance depends on the region. In certain regions, the payments are in balance with the gains of being part of the franchise system, whereas in other regions, franchisees profit more than they have to pay (Benjamin *et al*. 2007).

At the franchisor level, the majority of studies showed that the magnitude of ongoing payments has no effect on survival chances (Lafontaine and Shaw 1998; Shane 1996, 1998; Shane and Foo 1999), shareholder returns (Spinelli *et al*. 2003), or growth (Kosová and Lafontaine 2010; Sen 1993; Shane 1996). One study even found that higher ongoing fixed fees negatively affect survival, at least for mature chains (Kosová and Lafontaine 2010). Only a subset of the studies found positive effects on financial turnover (Chaudey and Fadairo 2008, 2010) and the survival of large systems (Shane 2001). Moreover, Kosová and Lafontaine (2010) found a positive relationship between advertising fees and survival, and a positive effect on growth from royalties and advertising fees in mature firms. Interestingly, Kaufmann and Dant (1996) found an overall positive effect of fees on growth, while Shane *et al*. (2006) reported larger increases in the size of systems that gradually lower royalty rates and that start with low fees and raise them over time.

Length, tying, exclusive territories and fairness of contract. The roles of contract length, tying, exclusive territories and contractual fairness have also been investigated. Contract length appears to be unimportant to achieving positive outcomes. Of six studies, only Chaudey and Fadairo (2008, 2010) found a positive correlation between constraint contracts and results, and length was only one of the six variables in the constraint contracts measure. Moreover, tying agreements in the contract, i.e. obligatory central purchasing, are not important to the success of franchising. Three out of four studies showed that such agreements benefit neither the franchisor nor the franchisee (Hing 1996; Hunt and Nevin 1975; Michael 2000). Only one small-scale Korean study found a positive relationship with satisfaction, but this was more related to the punctuality of deliveries by the prescribed supplier than to price levels (Roh and Yoon 2009).

In contrast to the marginal roles of length and tying, three US studies showed that adopting exclusive territories within contracts positively affects the survival of both the franchisor and the franchisee (Azoulay and Shane 2001; Michael and Combs 2008), and positively influences the franchisees' financial performance because it prevents the establishment of new same-brand units that can capture revenues from existing neighboring franchisee units (Kalnins 2004). Six studies highlighted the importance for franchisee satisfaction of contractual regulations (e.g. regarding termination and restrictions) that are clear, that do not exclusively benefit the franchisor's interests, and that are perceived by franchisees as reasonable, given the benefits that they obtain from the franchisor (Abdullah *et al*. 2008; Dubost *et al*. 2008; Hing 1996; Morrison 1996; Tuunanen and Hyrsky 2001; Withane 1991).

D: The influence of behavior and interaction

Fifty-eight studies showed that the previous three 'hard' design elements alone cannot ensure positive outcomes. Good relationships between the franchisor and the franchisees and the skills and attitudes of both parties also play an important role (see Block D in Figure 2 and Online Table S5). Evidence is primarily available for outcomes at the franchisee level ($n = 47$), with satisfaction as the outcome measure ($n = 33$).

The relationship between franchisor and franchisee. Several studies showed the importance of a good working relationship by investigating the following relationship characteristics: closeness of the relationship, commitment, trust, communication/information exchange, dependence, conflict and opportunistic behavior. Moreover, various studies showed that these relationship characteristics are related.

Studies focusing on various conceptualizations of closeness of the relationship consistently show that relationships between franchisors and franchisees always yield positive outcomes if they cooperate closely as partners with ample consideration for each other's tasks, roles and needs. Positive effects were found on the success of both parties, franchisee satisfaction, intention to remain, financial performance and competitive advantage (Baucus *et al*. 1996; Bordonaba-Juste and Polo-Redondo 2008b; Brown and Dev 1997; Clarkin and Rosa 2005; Huang *et al*. 2007; Huang and Phau 2009; Kidwell *et al*. 2007; Morrison and Lashley 2003; Rodriguez *et al*. 2005; Schul *et al*. 1985; Schul 1987; Spinelli and Birley 1998; Rajagopal 2007; Watson and Johnson 2010). One study focused on the relationships between franchisees and showed that cooperation and interaction in a particular region improves financial performance, but supra-regional interaction does not (Ehrmann and Meiseberg 2010).

Franchisor–franchisee relationships with higher levels of trust predominantly yield superior performance. Five studies showed a positive relationship with franchisor and franchisee satisfaction and the intention to remain, irrespective of the country, industry and type of trust examined (Bordonaba-Juste and Polo-Redondo 2004, 2008a; Chiou *et al*. 2004; Dubost *et al*. 2008; Dickey *et al*. 2007). Nevertheless, trust may be more important in some situations than in others. From the franchisee perspective, a high level of trust only has a significant positive effect at the beginning of the relationship, and not in the long term (Bordonaba-Juste and Polo-Redondo 2008a). At the franchisor level, trust only has a positive effect on financial performance in plural form chains, and not in pure franchises (Gillis and Combs 2009).

Moreover, studies show almost unequivocally that high-quality, frequent communication and information exchange between franchisors and franchisees reduce the probability of negative franchisee exit (Frazer and Winzar 2005). Moreover, it has a positive effect on franchisee satisfaction, intention to remain, success and perceived competitive position across countries and industries and regardless of the methodology used (Abdullah *et al*. 2008; Bordonaba-Juste and Polo-Redondo 2008b; Chiou *et al*. 2004; Dubost *et al*. 2008; Falbe and Welsh 1998; Gassenheimer *et al*. 1996; Hing 1996; Lee *et al*. 2008; Rodriguez *et al*. 2005). Only Gillis and Combs (2009) indicated possible negative effects of exchanging knowledge. This study found that franchisor investment in knowledge exchange reduced financial performance in pure franchise chains, but increased it in plural form chains.

Where the franchisor–franchisee relationship is characterized by higher levels of dependence, franchisees are found to enjoy higher levels of satisfaction and better performance (Bordonaba-Juste and Polo-Redondo 2008b; Lewis and Lambert 1991). In addition, higher levels of commitment between the franchisor and franchisee yield higher satisfaction levels, higher levels of the intention to remain, and greater managerial effectiveness (Bordonaba-Juste and Polo-Redondo 2004, 2008a,b). The only negative effect was on franchisee financial performance (Bordonaba-Juste and Polo-Redondo 2004). Studies consistently showed the negative effects of relationships in which the franchisor and franchisee behave opportunistically and experience high levels of conflict rather than work with each other's interests in mind (Frazer 2001b; Frazer and Winzar 2005; Gassenheimer *et al*. 1996; Kidwell *et al*. 2007; Lusch 1976; Phan *et al*. 1996; Rodriguez *et al*. 2005; Schul 1987; Tuunanen 2002).

Some of the preceding studies showed that these relationship characteristics are closely related, which suggests that the development of one characteristic can be stimulated by another. Franchisors and franchisees can enhance their level of cooperation by communicating better and more frequently, particularly when the franchisees are not heavily dependent on the franchisor (Rodriguez *et al*. 2005). Close cooperation, in turn, is associated with lower levels of conflict (Schul 1987) and opportunistic behavior (Kidwell *et al*. 2007) and stimulates the development of trust (Bordonaba-Juste and Polo-Redondo 2004) and commitment (Bordonaba-Juste and Polo-Redondo 2008b). Partners can achieve more commitment by being more interdependent and by expressing more solidarity with each other (Bordonaba-Juste and Polo-Redondo 2008b), by exchanging information (Bordonaba-Juste and Polo-Redondo 2004, 2008b; Watson and Johnson 2010), and by building trust (Bordonaba-Juste and Polo-Redondo 2004, 2008a). Commitment can also help to build trust (Dickey *et al*. 2007). Communication and information exchange moderates the negative impact of opportunistic behavior on franchisee satisfaction (Gassenheimer *et al*. 1996) and stimulates the development of commitment (Bordonaba-Juste and Polo-Redondo 2004, 2008b; Watson and Johnson 2010) and trust (Bordonaba-Juste and Polo-Redondo 2004, 2008a; Chiou *et al*. 2004; Watson and Johnson 2010).

Attitudes and skills of franchisee and franchisor. Multiple studies revealed that the skills and attitudes of the franchisor and the franchisee are important for the success of franchising. Franchisees that are highly motivated and willing to work hard and make sacrifices are more likely to survive and succeed, as are their franchisors (Bates 1995a,b; Clarkin 2008; Frazer and Winzar 2005; Frazer *et al*. 2007a; Jambulingam and Nevin 1999; Merrilees and Frazer 2006; Parsa *et al*. 2005; Watson 2008). Franchisees experience better financial performance, a greater likelihood of success and more satisfaction if they have good management and marketing capabilities and if they are able to align their own strategies and management efforts with those of the franchisor (Clarkin 2008; Falbe and Welsh 1998; Frazer and Winzar 2005; Knight 1986; Merrilees and Frazer 2006; Parsa 1999; Parsa *et al*. 2005; Withane 1991). It is unclear whether entrepreneurial characteristics and risk-taking are also important; some studies showed positive effects (Hing 1995, 1999; Withane 1991), whereas others showed negative (Fenwick and Strombom 1998) or neutral effects (Fenwick and Strombom 1998; Hing 1995, 1999; Jambulingam and Nevin 1999; Knott 2003). Franchisees' prior skills and experience appear to be less important than current capabilities. Experience, whether in self-employment, management, business or industry, rarely has a positive effect (Bates 1995a,b; Fenwick and Strombom 1998; Frazer *et al*. 2007a; Gassenheimer *et al*. 1996; Hing 1995, 1999; Hunt 1973; Jambulingam and Nevin 1999; Knight 1986; Knott 2003). Two studies even found a negative effect on returns (Knott 2003) and on franchisee satisfaction (Tuunanen and Hyrsky 2001). Only four studies found a positive effect on the success and survival of franchisees (Frazer and Winzar 2005; Knight 1986; Michael and Combs 2008) and franchisors (Shane 1998).

Franchisors need the skills necessary to successfully manage relationships, provide the support that franchisees need, and recruit suitable franchisees. Otherwise, they may leave franchising or experience reduced success (Frazer 2001b; Kirby and Watson 1999; Knight 1986; Stanworth *et al*. 2001; Watson 2008). Franchisors should also be able to choose the right strategies to influence the behavior of their franchisees. Franchisors can rely on the contract and on threats (i.e. coercive strategies) or can primarily use support services and communication activities (i.e. non-coercive strategies). Studies unequivocally found better outcomes at the franchisee level when franchisors primarily relied on non-coercive strategies (Frazier and Summers 1986; Hunt and Nevin 1974; Lusch 1977; Michie and Sibley 1985 Parsa 1996, 1999; Yavas and Habib 1987).

E: The influence of size and age

Fifty studies showed that the initial and current size of the system ($n = 21$), size of the franchisee firm ($n = 12$), initial ($n = 6$) and current system age ($n = 22$), and age of the franchisee firm ($n = 18$) are related to outcomes (see Block E in Figure 2 and the Online Table S6).

Size of system and franchisee firm. The size of an existing chain when it starts franchising affects neither franchisor survival nor growth (Azoulay and Shane 2001; Lafontaine and Shaw 1998; Shane 1996). However, once the chain has started franchising, a larger system size has mixed effects. Of the six studies that considered the influence on financial performance, five found a beneficial effect (Gillis and Combs 2009; Hsu and Jang 2009; Inma and Debowski 2006; Koh *et al*. 2009; O'Neill and Mattila 2004). Shareholder returns are the only exception to this trend (Spinelli *et al*. 2003). A methodologically strong study found a negative effect on growth (Kosová and Lafontaine 2010). Two small-scale studies found neutral or positive effects (Inma and Debowski 2006; Leblebici and Shalley 1996). In addition, the survival chances of franchises in Spain are affected positively or not at all by increases in size (Bordonaba-Juste *et al*. 2009; Vazquez 2007, 2009). Positive effects were also found in four out of six studies in the US. Only Kosová and Lafontaine (2010) found a negative effect, but for young firms only. It is likely that the differences in findings in the US are due to the correction for unobserved chain heterogeneity in the study of Kosová and Lafontaine (2010), as this correction reversed their finding from positive to negative. This suggests that a negative effect of size for young firms is probable. Negative effects were also found in Australia, although these studies focused on disruption and not on real exit (Frazer 2001a; Frazer and Winzar 2005).

The size of franchisee firms also appears to be relevant, at least to their survival and financial performance. Their survival chances are higher if they own a larger number of outlets (Parsa *et al*. 2005; Bates 1995a,b). Of the seven studies that investigated the relationship with financial performance, four found a positive effect (Brand and Croonen 2010; Benjamin *et al*. 2007; Churchill and Hunt 1973; Frew and Jud 1986), whereas the other three found no effect or a negative effect (Ehrmann and Meiseberg 2010; Knott 2003; Yin and Zajac 2004). These differences may be due to the different operationalization of size used in two of the latter studies and to differences between industries. Satisfaction and competitive position were found to be unaffected or even negatively affected by a larger franchisee size (Gassenheimer *et al*. 1996; Spinelli and Birley 1998).

Age of system and franchisee firm. No harmful effect was found for franchisors if they waited longer before starting franchising in an existing chain. Franchisors that extensively pilot their concept are more likely to succeed (Stanworth *et al*. 2004). Three studies also found higher survival rates for chains that are older at franchise start (Bordonaba-Juste *et al*. 2009; Kosová and Lafontaine 2010; Lafontaine and Shaw 1998), but two other studies did not share this finding (Azoulay and Shane 2001; Shane 1996). These differences may be due to differences in sample sizes; the positive studies used larger samples than the studies that found no effect, which makes a positive effect more likely. The age of a chain at franchise start was found to have either a positive (Kosová and Lafontaine 2010) or no effect on growth (Shane 1996).

As systems age, the outcomes for franchisors are affected, but it is not exactly clear how. None of the outcomes becomes unequivocally more positive. Four of the seven studies examining the relationship with financial performance found positive effects (Chaudey and Fadairo 2008, 2010; Spinelli *et al*.

2003; Thompson 1994), but the other three studies reported negative effects (Inma and Debowski 2006; Price 1993; Sorenson and Sørensen 2001). This difference may be due to different ways of measuring and, in particular, to the way in which the first two studies measured age as part of a broader typology. Koh *et al*. (2009) showed that the financial effect of age disappears after some time. Studies on survival demonstrated mostly positive effects in the US and Spain (Kosová and Lafontaine 2010; Shane 1998, 2001; Shane and Foo 1999; Vazquez 2007, 2009), but negative and no effects in Australia (Frazer 2001a; Frazer and Winzar 2005). One US study also found a negative effect (Castrogiovanni *et al*. 1993). The variations in these findings may be due to the focus on disruption and to the measurement at unit level in the latter three studies, rather than on survival of the whole system. With respect to growth, studies showed that franchise system age has either a negative effect or no effect (Castrogiovanni and Justis 2002; Inma and Debowski 2006; Kaufmann and Dant 1996; Kosová and Lafontaine 2010; Leblebici and Shalley 1996).

Ageing of franchisees and their outlets does not leave their outcomes unaffected, but the direction of the effect is not clear. Opposite effects were found on competitive advantage (Baucus *et al*. 1996; Gassenheimer *et al*. 1996) and financial performance (Baucus *et al*. 1996; Benjamin *et al*. 2007; Darr *et al*. 1995; Ehrmann and Meiseberg 2010; Fenwick and Strombom 1998; Knott 2003; Komoto 2005; Yin and Zajac 2004), without any consistent patterns in sector, country and type of financial performance. Franchisee satisfaction remains the same (Gassenheimer *et al*. 1996; Jambulingam and Nevin 1999) or even decreases over time (Grünhagen and Dorsch 2003; Tuunanen and Hyrsky 2001). Survival chances generally either stay similar or increase over time (Bates 1995a,b; Kalnins and Mayer 2004; Parsa *et al*. 2005); they only decrease when an existing unit is bought from another owner (Bates 1998).

Discussion and conclusion

This systematic review aimed to collect all the empirical evidence on the structural and process-related factors that influence the results achieved within franchise systems, and to bring this evidence together in an integrative framework. We can conclude that franchisors and franchisees must consider multiple factors, thus ensuring an adequate fit between franchise design elements, individuals and the external context to make franchising work for themselves. Franchisors and franchisees should work on the development of a recognizable brand name and a high-quality working relationship, and they should make sure that they are both sufficiently skilled and motivated to generate better outcomes. Moreover, franchisors should provide site selection assistance and exclusive territories to franchisees, but they should not tie supplies. To further enhance franchisee outcomes, franchisors should offer high-quality instrumental support, use substantial tools to select potential franchisees, decentralize decision-making, provide fair and clear contracts, and use support services and communication rather than contractual threats to influence franchisee behavior. The provision of a large number of support services also benefits franchisees. However, this does not benefit franchisors. Whether franchisors should have a high franchise proportion, discourage passive ownership and/or invest in knowledge exchange and standardized operating routines to further enhance their own outcomes depends on their overall system design and the external context. The roles of multi-unit ownership, payments, size and age are as yet unclear. We have mapped all these findings into a comprehensive framework that depicts the factors that jointly drive success in franchising (see Figure 2 in the results section).[6]

Although the research findings presented in this review indicate that there are multiple factors that generally enhance success, the findings also show that outcomes in franchising are dependent on the compatibility and cohesion of different system design elements, the behavior of and relationship between actors in the system, and the context. More specific, neither ownership structure is universally appropriate or inappropriate, but the results are dependent on size, the market, business format design and age. Building trust and stimulating knowledge exchange may be more effective in plural form chains, whereas standardization may be better for results in pure franchises. Different support services seem to be valued to varying degrees among the different franchisees, systems, industries and

[6]It should be noted that the framework only depicts the relationships that have been found to date. There may also be other relevant factors. Current evidence does not allow us to determine whether the dotted lines in the framework from factors to outcomes are causal. Thus, further extensive empirical research is needed.

countries, and the valuation may worsen over time. The impact of the magnitude of payments can be contingent on the system age and size, and also the inconclusive impact of age and size across studies may be a function of the lack of attention to the broader system. The cohesion of all these elements implies that it is important that researchers pay more attention to the interactions among different elements of the system, their combined effects and their relationship to the external context (contextualized systems approach; e.g. see Chenhall and Langfield-Smith 1998).

We do not yet know what factors determine the success of franchising for customers. This scarcity of empirical research from the customer perspective is surprising, given that the ultimate success of franchising is dependent on customer appreciation. Although data regarding financial performance and survival may indicate whether customers value a particular franchise, we do not know what it is exactly that customers value about franchise systems. This lack of information constitutes a clear gap in knowledge (e.g. see also Dant 2008).

The contribution of theoretical perspectives to the evidence

The diversity and complexity of the franchising literature make it difficult to develop a single, overarching framework of the success factors involved. Researchers, even those from similar disciplines, have framed and operationalized similar factors differently. By compiling all the empirical studies within one framework for the first time, this review may provide a valuable resource to scientists with different perspectives for future research and aims to make an important contribution to the current literature.

Various theories have primarily delivered complementary insights into what makes franchising work, despite their diverse means of framing the factors involved. Our review shows that the agency perspective (e.g. Combs *et al*. 2004b; Vazquez 2007) has helped researchers to predict the influence of ownership structures, business format design and, to a lesser extent, contractual arrangements, age and size. Resource theories have often been used to complement agency theory (e.g. Combs *et al*. 2004b; Hsu and Jang 2009) in the study of ownership structures and have correctly indicated the impact of business format design and behavior in several studies. Relational/social-psychological theories (e.g. social exchange, relational marketing) (e.g. Bordonaba-Juste and Polo-Redondo 2008b; Dubost *et al*. 2008) have contributed significantly to our understanding of how the actions and interactions of the franchisor and the franchisee shape success. To a lesser extent, these theories have shown which characteristics of the business format are helpful. Learning and knowledge perspectives have only been employed in a small number of studies, but have been quite fruitful (e.g. Minguela-Rata *et al*. 2009, 2010; Sorenson and Sørensen 2001). Given the central position of knowledge transfer to franchising (e.g. Paswan and Wittmann 2009), it is surprising that these perspectives have not been used more often. Contingency principles have taught us that not all factors have similar effects in all situations (e.g. Yin and Zajac 2004; Srinivasan 2006). Multiple other perspectives have been used in a limited number of studies. For further research with a systems approach, we suggest that researchers combine economic-based approaches (e.g. agency theory), organizational approaches (e.g. strategic), and social-psychological perspectives (e.g. relational exchange, expectancy and entrepreneurship theory).

Reflections on the literature and research agenda

In this review, we have identified various gaps that merit further research as well as multiple promising avenues for further investigation. We urge scholars to investigate further the interaction between different system design elements, people and contexts to gain better insight into what makes franchising work. As indicated by this review, the relationships are complex between ownership structure, business format design, contract design, age, size, and behavior and interactions, and the outcomes of franchising. This implies not only that the effects of individual design and process elements are difficult to determine, but also that the effects of these elements may actually vary in different systems. These contingencies and the lack of attention to such interactions and linkages in some studies may explain the differences in the results obtained in this field. Therefore, we argue that the evidence regarding what makes franchising work could be enhanced and that some of the ambiguities in the current evidence could be eliminated if researchers considered the effects of different design and process elements in relation to each other and to the external context. The studies by

Srinivasan (2006), Inma and Debowski (2006), Kosová and Lafontaine (2010) and Gillis and Combs (2009) are a few examples of how such research can be conducted. Such research will also allow a better determination of the transferability of evidence to other industries and countries and the provision of more focused decision-support to practitioners.

We recommend that researchers identify the synergies between and within ownership structures, business format elements, contract elements, behavioral and interaction aspects, age and size as factors in outcomes of franchising. Researchers should also look for neutralizing effects (e.g. can the positive effect of support neutralize the negative effect of payments? see Michael and Combs 2008). We also suggest further study into the relative importance of different factors in shaping outcomes. For example, Dubost *et al*. (2008) found intangible relationship issues to be as important as, or more important than, support services, whereas Abdullah *et al*. (2008) found the opposite to be true in another industry and country. We also recommend investigating the outcomes for franchisor, franchisees and customers in relation to each other, i.e. multi-level investigation, as trade-offs may exist (e.g. in the extent of support; e.g. see Shane (2001) and Minguela-Rata *et al*. (2010)), the perceptions of the actors may differ, and the outcomes for one actor may have consequences for the actions and outcomes of other actors (e.g. Bordonaba-Juste and Polo-Redondo 2004, 2008a). To date, only a few studies have conducted this type of combined research, although Elango and Fried called for such studies as early as 1997. Consequently, we also recommend that the factors that have only been investigated from either the franchisee or the franchisor perspective be examined from both perspectives. In addition, we recommend that researchers employ more mixed-method designs in addressing these research challenges, as such designs will help them to further develop theories regarding what makes franchising work (e.g. Creswell 2003).

A contextualized approach will also help researchers to determine whether it is truly problematic that the current empirical studies mostly focus on the US and the restaurant/food sector or whether the results of such studies can be generalized to other countries and industries with similar systems. We suggest here, among other topics, research on multi-unit franchises, as such firms are often larger in the US than in smaller (European) countries,[7] and size may have an impact on the benefits and drawbacks of using this ownership structure (Shane 2001).

This review has revealed two additional gaps in the evidence at the franchisee level that require further attention. First, few studies on outcomes at the franchisee level used more than only satisfaction measures,[8] whereas ultimately 'hard' results, such as financial performance and survival, are also important. Second, although the research findings suggest that franchisees play an active role in making their franchises successful (e.g. Jambulingam and Nevin 1999; Merrilees and Frazer 2006; Parsa 1999), studies at the franchisee level have focused primarily on what franchisors should do to create better outcomes for their franchisees (see all the studies on support, control and contracts). It is crucial that researchers also examine how franchisees can make their own unit(s) more successful. Some relevant research questions are: how can franchisees most successfully exploit their business format (e.g. see Merrilees and Frazer (2006) for a starting point) and how can the frequency, quality and type of interaction between franchisees within a system contribute to their success (see Ehrmann and Meiseberg (2010) for a starting point).

We also argue that the gap in understanding of what makes franchising work for customers must be filled, as this knowledge will be extremely relevant for practitioners and will enable them to make their systems more successful (see e.g. Dant (2008) for relevant questions to investigate).

In addition to making these broader recommendations, we suggest that researchers address two important, but not yet properly investigated topics: the level of uniformity and knowledge transfer within franchise systems. This review suggests that controlling all franchisee decisions is not beneficial, despite the basic principle of uniformity in franchising (Kaufmann and Eroglu 1998). Further insight is required into the optimal equilibrium between uniformity/control and adaptation/autonomy, given a particular business format design and context (see Cochet *et al*. (2008), Cox and Mason (2007) and

[7]We thank one of the anonymous reviewers for this comment.

[8]Satisfaction measures have almost exclusively been used to investigate the effects of qualitative and instrumental support, initial control, decentralized decision-making, fair and protectory contracts, commitment, trust, communication and dependence on outcomes at the franchisee level.

Dant and Gundlach (1998) for a starting point). In addition to agency theory (e.g. Kidwell *et al*. 2007) and knowledge perspectives (e.g. Komoto 2005), complexity theory (e.g, Anderson 1999; Burnes 2005) and organizational ecology (e.g. Burgelman 1991) could provide interesting new perspectives for this research. We also recommend research on the most effective mechanisms for transferring different types of knowledge and on the outcomes of knowledge and innovations that are generated by franchisees and franchisors (see Cumberland and Githens (2012), Dyer and Nobeoka (2000) and Paswan and Wittmann (2009) for a starting point). Other relevant topics include the effectiveness of different selection methods to identify suitable franchisees (HRM perspective) (e.g. see for a starting point Ryan and Tippins (2004); Rynes *et al*. (2002) and Wright and Boswell (2002), in combination with the studies on franchisee attitudes and skills mentioned in this review) and the best ways to develop close relationships within franchise systems (e.g. see Rahatullah and Raeside 2008; Rodriguez *et al*. 2005).

Finally, some of the empirical studies presented here have strengths that should be preserved in future research. These strengths include the use of longitudinal designs in studies of survival and growth and the use of methods that control for age and size. Moreover, because many challenges and relationships are not unique to the franchising context, research can benefit from a wide range of other studies on inter- and intra-organizational cooperation. Generating connections with other fields may also encourage mutual learning.

Limitations

Although we conducted a systematic review, an absence of publication bias cannot be guaranteed, as this review was limited to empirical peer-reviewed journal articles written in English. Moreover, the diversity of perspectives used to study franchising resulted in a multitude of outcome conceptualizations that we had not anticipated, and we used rather broad outcome concepts in our databases search. Consequently, our initial search did not identify all relevant articles. An extensive reference check that identified many additional relevant articles resolved this limitation. A limitation of our analysis is that the level of evidence presented in the studies was not rated. This choice could have distorted our overview to some extent. However, such a distortion was prevented as we considered the methodologies used if different studies presented different results. Readers can evaluate the possible interpretative elements in the thematic analysis by examining the extensive tables provided online, which present the findings of individual studies. By focusing on factors within franchise systems, we largely disregarded the influence of general economic and commercial factors within countries and industries. Clearly, these factors can also affect outcomes (e.g. see Shane and Foo 1999). Finally, franchisors and researchers who are interested in successful international expansion may use this review as a starting point, but should also consider the literature on the factors that influence such expansion, because these factors were not examined exhaustively in this review (see e.g. Frazer *et al*. (2007b) and Grewal *et al*. (2011) for a starting point.

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Supporting information

Additional supporting information may be found in the online version of this article at the publisher's web site:

Table S1. overview of studies on outcomes of factors within franchising
Table S2. Studies on outcomes of ownership structure
Table S3. Studies on outcomes of business format design
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Table S6. Studies on outcomes of franchisor and franchisee age and size