Franchising: a literature review on management and control issues

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Abstract

This article provides an overview of the recent literature on franchising, with special attention to management control issues. Based on an analysis of franchising articles published in twenty-five high-impact journals over the period 1996–2008, the literature is divided into the following three broad streams: franchise initiation and subsequent propensity to franchise, franchise performance and control of franchising relationships. Several research gaps and avenues for future research are identified, especially towards a systematic study of management control issues in the context of franchising relationships.

Key words: *franchising, literature review, management control*

JEL-codes: D23 – L22 – L26 – M21 – M40

I. INTRODUCTION

This article provides an overview of the recent management literature on franchising, with special attention to its management control[i] aspects. Franchising plays a prominent role in business life today. This form of entrepreneurship is increasingly being adopted in a variety of sectors, especially by retailing and service companies such as McDonald's, Holiday Inn, Body Shop and Benetton. According to the Deontological European Code of Honour (2004), franchising is a system for the sale of commodities, services and/or the application of technology. It is based on a close and continuing cooperation between juridical independent and financially autonomous companies, namely the franchisor and his individual franchisees. Hereby, the franchisor grants his franchisees the right and he puts them under the obligation to exploit a business in accordance with the business concept. Therefore, the franchisee pays the franchisor an initial franchising fee, periodical royalties and/or advertising fees. In return, the franchisee is granted the right to make use of the brand name, the trademark, the know-how, the commercial and technical methods, the operating procedures and other industrial or intellectual property rights. Moreover, the franchisee is supported by the enduring commercial and technical assistance from the part of the franchisor. This all happens during the term of a written franchising contract that is concluded for this purpose between the two parties.

A franchising chain is not solely composed of the franchisor and his individual franchisees. Figure 1 depicts the complete franchising system, including the franchisor, the single-unit franchisees, the multi-unit franchisees with their outlet managers, the master franchisees with their sub-franchisees and the managers of company-owned outlets. Most franchising chains adopt a dual distribution strategy, also referred to as the plural form, meaning that the chain is made up of both franchised and company-owned units (see Srinivasan (2006)). Among the franchisees, a distinction can be made between single-unit and multi-unit franchisees. Multi-unit franchisees own more than one unit and only franchisees that excel in their activities are granted the possibility of unit growth (see Bradach (1997)). Other possible members of the bounded franchising network are the master franchisees. When franchisors expand their business in other countries, they can assign a master franchisee who signs franchise agreements on their behalf with sub-franchisees in a specified territory. Master franchisees receive the responsibility to select other franchisees, to offer training, to coordinate activities with local franchisees, to monitor performance and to implement the franchisor's strategies (see Shane (1998b)).

[insert Figure 1 here]

This paper is not the first one to offer an overview of the franchising literature. Elango and Fried (1997) review the franchising literature published before 1997 and distinguish three broad streams: franchising and society, the creation of the franchising relationship and the operation of a franchising system. One of their observations is the lack of attention to the manner in which franchising systems actually work to create value. They therefore call for research focusing on implementation issues, including the study of management control systems. Combs et al. (2004) review the empirical literature based on three key franchising constructs – franchise initiation, the subsequent propensity to franchise and franchise performance – from the perspectives of the resource scarcity theory and agency theory. Again, this paper hardly pays attention to the actual management of the relationships within a franchising chain. Although management control of inter-organisational relationships is extremely important, it has not yet been examined systematically in the franchising context (see Van der Meer - Kooistra and Vosselman (2006)). Our aim is therefore to provide an updated review of the franchising literature published in high-impact journals, which we analyse in terms of the management control issues. We also identify several research gaps and avenues for future research, especially towards a systematic study of the management control system in the context of franchising relationships.

We thoroughly searched the business and economics literature on franchising covering the time period 1996-2008 by means of the search engine *Web of Science*[ii]. Publications in journals with an impact factor larger than 1.000 were retained for further analysis. We also added 13 articles published in *Journal of Small Business Management.* Although the impact factor of this journal decreased in 2007 and became smaller than 1.000, leaving out this large number of articles would make the overview less representative for the franchising literature. The final selection contains eighty-six papers published in twenty-five high-impact journals[iii]. Consequently, if business journals with an impact factor above 1.000 do not occur in this selection, it means that they have been screened for franchising articles without result. Similar to Combs et al. (2004), we classify the articles along the themes franchise initiation and subsequent propensity to franchise on the one hand, and franchise performance on the other hand. Additionally however, we include control of franchising relationships as an important and separate third theme. The remaining of the paper is structured as follows. In section two, we discuss the literature on franchise initiation and subsequent propensity to franchise. Next, the papers on franchise performance are dealt with. In the fourth section, the literature on control problems and mechanisms in the context of franchising relationships is outlined. Finally, we identify several research gaps and future research opportunities towards gaining a more profound understanding of the functioning of management control systems within the franchising context.

II. FRANCHISE INITIATION AND SUBSEQUENT PROPENSITY TO FRANCHISE

Table 1 provides an overview of the literature on the decision to franchise. Panel A deals with the *determinants of the extent of franchising*. Five articles examine the franchisor's decision to franchise. Based on Michael (1996), Alon (2001) and Combs and Ketchen (2003), we know that high levels of business risk, human capital, firm growth rate and investment level have a negative impact on the share of sales through franchising and that size (outlet and system size), geographical scope, local managerial expertise and franchisor inputs have a positive impact. The importance of gender issues (see Dant et al. (1996)) and the type of franchising (social venture versus business format franchising) (see Tracey and Jarvis (2007)) have been studied more sporadically. The franchisee's decision to franchise has gained far less attention in the recent franchising literature. Factors having a positive impact on the franchisee's decision to franchise include industry risk, financial capital available at start-up, education level, salaried work experience (see Williams (1998)), perceived benefits of self-employment, importance attached to the financial and business benefits of franchising and greater choice of sectors (see Kaufmann (1999)). Prior experience as a business owner is found to have a negative impact on the decision to become a franchisee (see Williams (1998)). Finally, Stanworth and Curran (1999) use a sociological approach for developing a theoretical model of franchising. Propositions are formulated with regard to franchising at a societal, organisational and individual level, containing factors that influence the franchisor's and franchisee's decisions to franchise.

[insert Table 1 here]

From Panel B, we learn that the factors influencing franchisors to enter into *multi-unit franchising* include system growth rate (see Kaufmann and Dant (1996)), agency cost minimization, system-wide uniformity, brand value, system reward strategies that involve the granting of additional units, subsystem unit proximity and intra-system competition (see Weaven and Frazer (2007)). Moreover, multi-unit franchising can have an interesting control function for the franchisor. Kalnins and Lafontaine (2004) find that chain incentives and efficiency issues drive the ownership allocation decisions in these chains: franchisors allow their multi-unit franchisees to own units that are close to one another and they favour franchisees with relevant experience in markets with similar demographic characteristics to become multi-unit owners. Finally, Grünhagen and Mittelstaedt (2005) investigate the motivation to enter multi-unit franchising from the perspective of different types of franchisees. They find that multi-unit franchisees operating as area developers and sequential multi-unit operators are equally investment-oriented but that the sequential multi-unit operators are more likely to seek fulfillment of entrepreneurial goals[iv].

From Panel C we conclude that all papers on the *plural form* are written from the perspective of the franchisor and that agency theory and resource scarcity theory are the dominant theories used in explaining the plural form. Agency theory emphasizes that managers of company-owned outlets tend to shirk because their income is fixed (see Brickley and Dark (1987)), while franchisees possess high-powered incentives as their variable income depends on their unit's performance (see Bürkle and Posselt (2008)). Consequently, the agency view assumes that the costs of risk and controlling franchised units explain the varying fraction of franchised and company-owned outlets (see Bürkle and Posselt (2008)). The resource scarcity view assumes that small chains adopt franchising to gain quick access to resources in order to grow fast. However, once the franchisor has acquired sufficient resources over time, he will take over his franchisees' units to obtain tight control (see Carney and Gedajlovic (1991)). This reasoning leads to the ownership redirection hypothesis, which states that a franchising chain will ultimately become 100% company-owned, because the more powerful franchisor will convert previously franchisee-owned outlets to company-owned outlets over time when his resource constraints disappear (see Oxenfeldt and Kelly (1968)). Empirical studies of the ownership redirection hypothesis, however, come to inconsistent conclusions. The diverging operationalization of the ownership redirection concept is indicated as the major reason for the discrepancies (see Dant et al. (1996)).

Factors found to have a negative impact on the degree of franchised units include franchisor size (see Castrogiovanni et al. (2006a), Dant et al. (2008)), royalty rates (see Shane (1998a)), access to resources (see Dant and Kaufmann (2003)), specific knowledge of the firm (see Combs and Ketchen (1999)) and contractibility of local assets (see Windsperger and Dant (2006)). Incidence of internationalization, cash liquidity requirements imposed by the system on the franchisees, capital scarcity, and asset specificity are found to have a positive impact on the proportion of franchised units (see Combs and Ketchen (1999), Dant et al. (2008)). With respect to the level of initial investment and age of the chain, we find some inconsistent conclusions across the different studies. According to Shane (1998a), the initial investment necessary to open an outlet has a negative impact on the proportion franchised, while Dant et al. (2008) find a positive effect. Similarly, some papers (see Castrogiovanni et al. (2006a and 2006b)) find a positive effect of firm age, while others (see Dant and Kaufmann (2003), Dant et al. (2008)) find a negative impact of firm age on the degree of franchised units within a chain. In addition, Shane (1998a) provides evidence that the effects of system size, system rate of growth and geographic dispersion on the proportion of outlets franchised are curvilinear, which may reconcile some of the conflicting findings on the direction of these variables. Examining other non-linear relationships appears to be an important direction to advance the research on the plural form in franchising.

Panel D provides an overview of papers that deal with the franchisor's decision to franchise in the context of an *internationalization* strategy. Two papers examine the capabilities of international franchisors. International franchisors appear to have developed a greater capability to bond against and to monitor potential franchisee opportunism (see Shane (1996b)). However, the ability to develop the specific set of required capabilities of international franchisors appears to shift both back and forward over time in a dynamic process (see Fladmoe-Lindquist (1996)). Three papers deal with the choice of organisational mode for international interfirm collaborations (i.e. franchising versus other modes such as equity joint ventures and management service contracts). Factors influencing this choice include host country environment, firm strategy (see Contractor and Kundu (1998), Dunning et al. (2007)), the availability of a support infrastructure and the possibility to imitate capabilities (see Erramilli et al. (2002)). Finally, Welsh et al. (2006) provide an overview of the extant literature on international retail franchising and a conceptual model of the stakeholders of international retail franchising.

III. FRANCHISE PERFORMANCE

In table 2 we divide the extant research on franchise performance into three sub-themes, namely 'growth and survival', 'learning and entrepreneurship', and 'fit with strategy and effect on performance'.

[insert Table 2 here]

More than half of the papers on performance deal with *growth and survival* (Panel A). Shane (1996a) argues that franchising, as compared to other hybrid organisational forms, has a positive effect on network growth and survival since it overcomes managerial limits to firm growth. However, Lafontaine and Shaw (1998) conclude that the growth rate of business format franchising is at best commensurate with the growth rate of the economy as a whole. Factors with a positive impact on franchise system growth include franchisor growth orientation, franchisee start-up costs (see Castrogiovanni and Justis (2002)), multi-partner franchise system start-ups, franchise system piloting, prior franchising experience of the franchisor (see Stanworth et al. (2004)), lowering of royalty rates as the system ages, low up-front franchise fees rising over time, low initial investment, financing of franchisees (see Shane et al. (2006)) and close adherence to the original franchise practice (see Szulanski and

Jensen (2006)). Industry growth, franchisor age (see Castrogiovanni and Justis (2002)) and adaptation by the subsidiary that removes the diagnostic value of the original franchising practice (see Szulanski and Jensen (2006)) produce a negative effect for network growth. Grünhagen and Dorsch (2003) investigate how franchisees' perceptions about their franchisor's value are related to the franchisees' decision to expand their franchise operations. The results show that franchisees recalling an earlier expansion decision have stronger positive perceptions about their franchisor's value than franchisees contemplating an expansion of their operations.

Four papers in Panel A deal with *survival of the franchise system as a whole*. Passive ownership by the franchisee, franchisee cash investment, franchisee experience, geographic concentration of the system (see Shane (1998b)), legitimacy of the franchise system (i.e the degree to which an organisation's activities are taken for granted and/or the extent to which a new form conforms to recognized principles or accepted rules and standards), efficiency of the franchise system (see Shane and Foo (1999)), contracting efficiency and adoption of exclusive territories by new franchise chains (see Azoulay and Shane (2001)) have positive effects on the survival of new franchising chains, whereas complexity of the franchise system and master franchising (see Shane (1998b)) have negative effects. Shane (2001) finds that large firms that adopt policies which screen agents, signal quality and control agent's free-riding behaviour are more likely to survive and that changes in system size require changes in franchisor policies to ensure survival.

Finally, the rest of the papers in Panel A look at *survival and failure of business units* in a franchising chain. Bates (1998) examines the survival patterns among franchise and non-franchise small firms and concludes that the purchase of a franchise by a newcomer is unlikely to reduce the risks facing a new business start-up. One of the main reasons is that newcomers have to compete with many newly-opened units in mature franchising niches owned by multi-unit franchisees with greater experience and resources. Kalnins and Mayer (2004) provide an overview of the importance of local and distant experience of the franchisor and the owner at the time of the unit's founding on the unit's survival. Falbe and Welsh (1998) analyse franchise executives' perceptions of the importance of a number of characteristics associated with franchisee success and failure and find significant differences in the perceptions based on the country location of the franchisor and on the percentage of franchisee-owned units in the chain.

Panel B provides an overview of franchising papers on *learning and entrepreneurship*. Two papers deal with learning. Ingram and Baum (1997) find evidence that franchisors are superior learners and that franchisees do not enjoy a benefit from their experience with franchised units. Sorenson and Sørensen (2001) conclude that company-owned and franchised units complement each other because they provide different types of organisational learning: managers of company-owned outlets exploit more, while franchisees explore more. The other three papers in Panel B deal with entrepreneurship. Kaufmann and Dant (1998) provide a theoretical model on entrepreneurship in franchising and conclude that franchising provides a unique and fertile setting for research in entrepreneurship. Since then only two empirical papers have been published on this topic. Falbe et al. (1998) find that franchisor size, franchisor age, franchisor growth and time in franchising (i.e. the time between the establishment of the company and the establishment of a franchising system) have an impact on the entrepreneurial strategies and innovation efforts of franchisors and their support of entrepreneurial activities by franchisees. Clarkin and Rosa (2005) conclude that cooperative and adaptable relationships between franchisors and franchisees allow room for entrepreneurial activity by franchisees with a positive effect on performance, but that restrictive systems are likely to perform less well.

Panel C contains nine papers that explore the *fit with strategy and the subsequent effect on performance*. Four papers deal with performance effects of franchisors' strategies. Hoffman and Preble (2003) investigate franchisors' inclination to follow a conversion franchising strategy, which is a strategy where new franchisees are added to a franchised system by recruiting existing independent entrepreneurs or competitors' franchisees. They conclude that conversion franchising may offer economic resources and skills, which may serve as sources of competitive advantage. A franchising strategy may also lead to a first-mover advantage through the pre-emption of valuable real estate and desirable mind space of customers (see Michael (2003)). Combs et al. (2004) identify different types of franchisors and conclude that the group that has the strategy to franchise because of resource scarcity exhibits poorer performance than other types of franchisors. Srinivasan (2006) investigates the effect of a dual distribution strategy on intangible firm value and finds that this effect can be positive or negative depending on combinations of several firm characteristics such as age, scope of vertical integration, advertising, financial leverage and financial liquidity.

Four papers research the link between franchisees' strategies and performance. Litz and Stewart (1998) compare small businesses' strategy to compete as a franchisee or as an independent retailer. They conclude that franchising adds value to a small business and that the performance impact may not be due to cost advantages, but rather comes from the use of the trade name as a market signal to potential customers. Michael (1999a) concludes that franchising also provides an instrument for product differentiation for entrepreneur-franchisees and Achrol and Etzel (2003) find evidence that franchisees in different types of markets should adapt their goals in order to gain a better performance. Finally, Yin and Zajac (2004) find that franchised stores with their more decentralized structures are more likely to pursue strategies that emphasize flexibility, whereas company-owned stores tend to emphasize predictability. Furthermore, they show that this strategy-structure fit leads to better performance. The last paper in Panel C, Baucus et al. (1996), analyses how consensus between franchisors and franchisees on means for product and brand development relates positively to the franchise system's competitive advantage. They conclude that consensus on the means of pursuing efficiency exhibits a positive relationship with business performance and franchisees' satisfaction.

IV. CONTROL OF FRANCHISING RELATIONSHIPS

Control problems are inherent in franchising networks. While the large majority of the papers in this review hint at these problems when discussing other aspects of franchising, twenty-eight papers – about 33% of the selected papers – more thoroughly examine control issues. We list them in Table 3, in which the Panels A, B and C focus on control problem and the Panels D, E and F focus on control mechanisms.

[insert Table 3 here]

Five papers study the *tension between control and autonomy* in a franchising chain (Panel A). Chains often use a dual distribution strategy to maintain uniformity and at the same time to achieve system-wide adaptation to changing markets: company-arrangements appear to be better for controlling units, while franchise arrangements tend to generate more innovations (see Bradach (1997)). Bradach (1997) concludes that each type of unit benefits from the other because of mutual learning and ratcheting processes. Kaufmann and Eroglu (1998) emphasise that finding the balance between standardization and permitting local market adaptation remains one of the greatest challenges facing franchisors. However, by conceptualizing control and autonomy as multidimensional concepts, they can be considered as complements rather than opposites (see Pizanti and Lerner (2003)). Another interesting finding is that U.S. franchisors feel a greater demand for autonomy by their experienced domestic franchisees than by their experienced international franchisees. At the same time, international franchisees generally have more autonomy than domestic franchisees, for example with regard to decisions involving local market adaptation. On the other hand, when the local competition level is so high that it forms a threat to business survival, international franchisors and franchisees seek more collaboration (see Paik and Choi (2007)). Finally, Spinelli and Birley (1996) develop a theory of conflict for franchising chains. They recognize that the tension in the inter-organisational relationship between franchisors and franchisees requires a system of controls that allows coordination as well as adaptation. Related control problems are *free-riding and opportunism* within the chain, which can be caused both by franchisors and franchisees (Panel B). Cooperative interaction and formalization are found to be useful control structures to alleviate opportunism caused by the franchisor (see Dahlstrom and Nygaard (1999)). Encroachment – meaning that franchisors add new units of their brands proximately to their franchisees' existing units – is an important example of franchisor free-riding behaviour (see Kalnins (2004)). Free-riding from the side of the franchisees on franchisor brand reputation can be curbed by increased formalization, decentralized decision-making, interactions between franchisor representatives and franchisee dealers and external competition (see Kidwell et al. (2007)). Other studies focus on control problems related to the *marketing mix* (Panel C): they point at problems with coordinating the elements of the marketing mix (see Michael (2002)), price dispersion within chains (see Lafontaine (1999)), and levels of advertising (see Michael (1999b)).

Table 3 further lists the papers studying control mechanisms: ten papers deal with the franchising *contract and formalization* (Panel D), two with the structure of a chain (Panel E) and five papers focus on informal control mechanisms (Panel F). Seven papers in Panel D research contract provisions. Each paper focuses on a different aspect of contracting. Findings are that more relational contracts are likely to include various dispute resolutions (see Leblebici and Shalley (1996)), that a lump sum versus a sales-based advertising fee can be preferred to improve channel coordination under various chain situations (see Desai (1997)), and that restrictions on passive ownership, area development plans and mandatory advertising expenditures are complementary incentive mechanisms (see Brickley (1999)). Some studies investigate royalty rates and initial franchise fees: in a U.S. context, these can be explained by across-firm differences (see Lafontaine and Shaw (1999)) and institutional factors (see Brickley (2002)). Brickley et al. (2006) find that the franchisee's physical and human capital investments and the franchisor's experience are positively related to contract duration. Cochet and Garg (2008) conclude that firms learn over time and from the experience of peers in their sector in designing optimal contract terms. Further, franchising contracts have been presented as illustrations of the systematic development of mini-hostages: these are used as an alternative for other forms of government to assure that the contracting party will not cheat (see Dnes (2003)). Finally, Nault (1997) illustrates how information technology as a formalized system can provide the appropriate incentives to key actors within franchise arrangements.

Panel E of Table 3 presents two papers discussing the *organisational structure of a chain* as a control mechanism. With Wu (1998) we come back to the marketing mix problems mentioned above: price differentials between franchised and independent motels depend on the initial franchise fee and the presence of repeat customers. Lafontaine and Shaw (2005) examine the targeted rate of company-ownership as a control mechanism. They conclude that franchisors with high brand name value have high rates of company-ownership because they want to exert more control and protect their brands from franchisee free-riding. These issues bring us back to the crucial control functions of the plural form and multi-unit franchising, already mentioned in Table 1 in the context of the decision to franchise. Bradach (1997) finds that in spite of the differing control strategies of franchised and company-owned units, they share several performance measures. These can cause a ratcheting effect enhancing the ability to manage the performance of both kinds of units: the high performance of each one sets a benchmark or performance standard for the other one to pursue and puts pressure on the other one. Similarly, the players within the chain can use detailed information about the company-owned units to persuade franchisees to change certain behaviour. Michael (2000) finds that franchisors can make investments in activities such as dual distribution that increase their bargaining power and the franchisees' compliance with franchisor standards. Multi-unit franchising has an interesting control function too. Chain incentives and efficiency issues drive the ownership allocation decisions in these chains: franchisors allow their multi-unit franchisees to own units that are close to one another and franchisees with relevant experience in markets with similar demographic characteristics are favoured to become multi-unit owners (see Kalnins and Lafontaine (2004)). Further, a chain's challenge of maintaining uniformity is easier in the presence of multi-unit franchisees. They replicate the policies and practices of company-owned units, from the spans of control of field personnel to the performance evaluation and compensation systems. Moreover, only franchisees that excel in their activities are granted the possibility of unit growth. As multi-unit franchisees adopt the policies and practices of company units, they help to maintain the uniformity among the chain. Since multi-unit franchisees internalize the chain's standards, they make the chain's control exercise less complex (see Bradach (1997)). In addition, multi-unit franchising serves as a control mechanism that minimizes expected agency costs associated with the screening and recruitment of external franchisees (see Weaven and Frazer (2007)).

Six papers from our selection deal with *informal control mechanisms* (Panel F). The weaker the agents' incentives are aligned with the interests of the network, the more relational governance becomes important. Multi-unit franchising and franchisee success decrease the need for relational control, while competition increases this need (see Cochet et al. (2008)). The informal control mechanisms discussed in the literature include the informal dynamics between the franchisor and the franchisee, the franchisee's willingness to provide information, the franchisee's attitude towards business, the franchisee's identification and the franchisor's bargaining power. Phan et al. (1996) argue that franchisors are continually trying to persuade their franchisees as it is impossible to specify all future actions in contractual terms. The willingness of franchisees in distant markets to provide information to their franchisors increases with the extent of competition and decreases with the age of the relationship (see Dant and Nasr (1998)). Jambulingam and Nevin (1999) find that the franchisee's attitude towards business can be used as an effective input control strategy by franchisors. Ullrich et al. (2007) argue that organisational identification predicted customer-oriented behaviour on the franchisee level, whereas corporate identification predicted attitude toward corporate citizenship behaviour. Finally, Michael (2000) finds that dual distribution, selecting inexperienced franchisees, granting exclusive territories and employing a long term training program increase the franchisor's bargaining power.

V. AVENUES FOR FUTURE RESEARCH

In this section, we continue our analysis in order to specify a number of research gaps and future research opportunities. Table 4 summarizes the main findings and conclusions drawn from the recent academic literature on franchising. It is clear that a lot of research attention has been devoted to examining in depth the factors influencing the decision to franchise and the performance of the franchise system. On the other hand, 33% of the papers under investigation deal with control aspects. The control stream appears to lead more fragmented conclusions, in the sense that diverging control aspects and determining factors have been studied in separate articles so far. None of these articles study the integral management control system within a chain.

[insert Table 4 here]

Overall, we observe that the franchising literature has so far paid extensive attention to the franchisor's perspective, while the franchisee's perspective has come in the picture considerable less often. The research stream on franchise initiation and subsequent propensity to franchise provides only a limited number of papers focusing on the franchisee's as compared to the franchisor's view. However, as an important and legally independent party in the franchising agreement, the franchisee's perspective is highly relevant with respect to this topic. In the research stream on franchise performance, it strikes us that the overwhelming majority of articles investigate factors influencing the performance of the franchise system as a whole, whereas the performance of individual franchised units has largely been neglected.

We therefore want to stimulate franchising academics to investigate the decision to become a franchisee and the factors influencing the franchisee's motivation to own several units, as well as performance issues related to individual franchise units.

The lack of attention to the franchisee's perspective becomes even more apparent with respect to control issues. Free-riding and opportunistic behaviour are not only important control problems for franchisors, but also for franchisees. Franchisors can display opportunistic behaviour, for instance, by encroachment (see Kalnins (2004)) or by developing national promotional campaigns for products but failing to ship appropriate quantities of the product to their franchisees (see Dahlstrom and Nygaard (1999)). Thus, it is not unlikely that the franchisor fails to provide his franchisees with the necessary and promised support. Furthermore, Combs et al. (2004) refer to the horizontal agency problems that may arise in a franchising chain: franchisees have the incentive to lower quality when the gains of this activity can be internalized and the costs externalized. This free-riding behaviour by franchisees will not only damage the franchisor, but the other franchisees as well. This problem is exacerbated by the mobility of customers. However, hardly any of the papers of this literature review thoroughly discussed the control mechanisms that franchisees can apply to monitor their franchisor and peer franchisees. Dahlstrom and Nygaard (1999) are the only researchers to investigate franchisor opportunism. They find that cooperative interaction curbs bargaining costs and that formalization reduces this opportunism. Their theoretical model frames opportunism as a determinant of transaction costs and implicates cooperation and formalization as control structures that decrease franchisor opportunism. Despite their effort, we want to stress that franchisee control problems and mechanisms have not yet received the deserved attention in the literature and want to urge franchising researchers to deal with this topic more extensively in future research. We hereby encourage franchising researchers also to incorporate the perspective of other players such as the managers of company-owned outlets or master franchisees. Dant (2008) adds that the customer's perspective has been ignored in a similar way.

It is clear that control problems of the franchisor and potential remedies appear – as the central or a more peripheral research topic – in almost every franchising paper. This is logical given the large number of players involved in the franchising chain, as depicted in Figure 1. Remarkably, however, all articles investigate particular control problems and/or control mechanisms in isolation. In other words, the extant franchising literature is lacking a comprehensive discussion of the management control system in operation. Moreover, the franchisor-franchisee relationship has been treated as a rather homogeneous phenomenon. In practice, however, the characteristics of franchisor-franchisee relationships vary in terms of aspects like the type of product/service, the degree of support offered by the franchisor, the personal involvement of the franchisee-investor etc. (see Shane (1998b), Stanworth and Curran (1999)). We therefore see a need for the in-depth investigation of the control problems under these varying circumstances and recommend a more holistic approach to tackle the control issues in the franchisor-franchisee relationship.

We observe that agency theory is the dominant framework used to investigate control issues and we would like to call for more theoretical diversity. Agency theory informs us about the potential control problems in inter-firm franchising relations, but not about how these control problems may differ in various franchising relationships with different transaction, transaction environment and transaction partner characteristics. More specifically, we expect that franchisor-franchisee relationships with different characteristics are experiencing different control problems, which in turn require different control mechanisms. In future research, it might therefore be interesting to complement agency theory with transaction cost economics (TCE). TCE studies how trading firms protect themselves from the hazards associated with exchange relationships and attempts to explain how trading partners choose, from a set of governance alternatives, the arrangement that offers protection for their relationship-specific investments at the lowest cost (see Williamson (1979)). In TCE-terms, the relationship between a franchisor and a franchisee can differ in a variety of ways such as the amount of asset specificity involved, the degree of uncertainty about the future and about other parties' actions and the complexity of the arrangement (see Shelanski and Klein (1995)). This theoretical perspective has already been successfully applied in studies on the management control structure of other types of strategic alliances such as outsourcing relationships, joint ventures and buyer-supplier relationships (see Van der Meer-Kooistra and Vosselman (2000), Langfield-Smith and Smith (2003), Dekker (2003), Dekker (2004), Kamminga and Van der Meer-Kooistra (2007)). Some papers of our literature selection have already adopted the TCE-perspective (see Dahlstrom and Nygaard (1999), Leblebici and Shalley (1996), Michael (2000)), but not in the way we suggest.

However, TCE has often been criticized as it is insufficient to adequately explain the management and control of inter-organisational relationships. Because of its focus on opportunism and transaction cost minimization, TCE does not recognize the variety in the forms and goals of inter-organisational relationships. In addition to economizing on transaction costs or the management of appropriation concerns resulting from a partner's potential opportunistic behaviour, another goal of control of inter-organisational relationships is the coordination of interdependent tasks between partners. Moreover, TCE's primarily contractual view of governance is incomplete, as it does not consider organisational mechanisms of governance and informal or social control mechanisms. Therefore, to build a management control framework for different types of franchisor-franchisee relationships, we suggest to not exclusively rely on TCE, but to also incorporate elements of organisation theory and the trust literature. The relationship between control and trust seems to be a rather complex one. Researchers have taken diverging positions with respect to this relationship in the management control literature on interfirm relationships. Examples of such positions are 'control structures are carriers of trust', 'control structures build trust', 'trust can replace the design and implementation of control structures and practices' or 'trust might be a necessary condition for control structures' (see Van der Meer – Kooistra and Vosselman (2006)). It would be interesting to investigate the complex dynamics between trust and control in the franchising context. Organisation theory assumes that higher degrees of interdependence increase the need for coordination and result in more complex administrative forms of organisation (see Thompson (1967)). In sum, appropriation concerns, as recognized by TCE, and coordination requirements, as recognized by organisation theory, are powerful concepts in explaining management control of inter-organisational relationships. These concepts jointly describe the partner firms' need to manage the creation and to safeguard the appropriation of value (see Dekker (2004)). These theories therefore provide interesting opportunities to investigate the actual operation of management control systems in franchising relationships. To advance this track, we visualize our rationale in Figure 2. The analysis of the recent franchising literature enables us to identify some of the factors that influence the relationship between the franchisor and the franchisee. Figure 2 provides a summarizing overview of the factors identified in the literature which mediate the franchisor-franchisee relationship. It depicts these factors in TCE-terms, namely as transaction, transaction party and transaction environment characteristics, and shows that these are expected to influence the control problems and, in turn, the control mechanisms that may arise in the franchisor-franchisee relationship. We encourage future research to refine this framework and to test the effect of the identified factors on control problems and control mechanisms in the franchising context.

[insert Figure 2 here]

Our additional suggestions are inspired by our observations of the approach taken when studying franchising issues. First of all, we notice that the overwhelming majority of the recent franchising research applies quantitative methods on archival or survey data (see Table 1, 2 & 3). A qualitative approach seems far less popular. However, qualitative methods have their virtue, certainly when used in combination with quantitative methods. For instance, consider the conflicting predictions of theoretical perspectives such as those of the resource scarcity and the agency theories with regard to changes in the proportion of franchised and company-owned units (see Dant et al. (1996)). In this case, theory-building from case-study research could be particularly appropriate because it enables the researcher to let new elements come into the framework (see Eisenhardt (1989)). Similarly, Dant (2008) calls for more innovative research thrusts and encourages a more phenomenological approach to gain a better understanding of franchising topics. Secondly, almost all franchising research has taken place in the U.S. context. In line with Dant (2008), we observe the need to investigate franchising outside the North-American setting and to consider other sectors than the restaurant industry. Thirdly, despite the fact that Kaufmann and Dant (1998) exhort franchising researchers to investigate the implications of franchising for entrepreneurship research, only two papers have subsequently examined franchising from an entrepreneurship perspective (see Falbe et al. (1998), Clarkin and Rosa (2005)). Consequently, future franchising research could exploit the research opportunities that an entrepreneurship perspective has to offer. Fourth, extant franchising research has largely ignored the paper by Shane (1998a), who suggests researching non-linear relationships to advance the research on the plural form in franchising. Therefore, we advise researchers to explore this route as this may shed some light on the inconsistent findings that characterize research on the plural form up till now (see Dant et al. (1996).

VI. CONCLUSION

In this paper, we reviewed the recent management literature on franchising published in high-impact journals during the period 1996 – 2008. In addition, we focus on the management control aspects of franchising chains. The final selection of eighty-six papers was classified along three broad themes, namely the initiation and subsequent propensity to franchise, franchise performance and control of franchising relationships. Based on the analysis of the selected literature, we advise researchers to not exclusively take into consideration the franchisor's perspective, but to additionally incorporate other parties' perspectives when examining franchising phenomena. Concerning this issue, the franchisee's perspective merits particular notice. In spite of the fact that several control problems and control mechanisms in franchising chains have already been examined in isolation, we conclude that the study of the actual management of franchising relations including management control systems has not yet received the academic attention it actually deserves. Therefore, we propose combining elements from the TCE, organisation theory and the trust literature in order to gain a profound understanding of the management control systems used in different types of franchisor-franchisee relationships. Other identified avenues for future research are the use of qualitative methods, studying the franchising phenomenon outside the U.S. context, investigating the implications of franchising for entrepreneurship research and researching non-linear relationships to advance research on the plural form.

NOTES

[i] The management control system of a company is a means of gathering and using information to aid and coordinate the process of making planning and control decisions throughout the organisation and to direct employee behaviour. In order to attain these objectives, management has some control mechanisms at its disposal (see Horngren et al. (1999).

[ii] *Web of Science* provides powerful access to the world's leading citation databases, with authoritative, multidisciplinary coverage from nearly 9300 of the highest impact journals worldwide.

[iii] We selected relevant articles from the following journals: Academy of Management Journal, Administrative Science Quarterly, British Journal of Management, Entrepreneurship Theory and Practice, International Business Review, International Small Business Journal, Journal of Business Venturing, Journal of Corporate Finance, Journal of International Business Studies, Journal of Law and Economics, Journal of Management, Journal of Marketing, Journal of Marketing Research, Journal of Political Economy, Journal of Retailing, Journal of Small Business Management, Journal of the Academy of Marketing Science, Management Science, Marketing Science, Organization Science, Small Business Economics, Strategic Management Journal, The Journal of Law, Economics & Organization, The RAND Journal of Economics.

[iv] Area development franchising refers to the contractual obligation for the franchisee to open a certain number of outlets in a specified period of time. Sequential multi-unit franchising refers to the right of the franchisee to open additional outlets. This typically involves a separate franchise contract for each subsequent unit (Grünhagen and Mittelstaedt (2005)).

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Figure 1: The franchising system

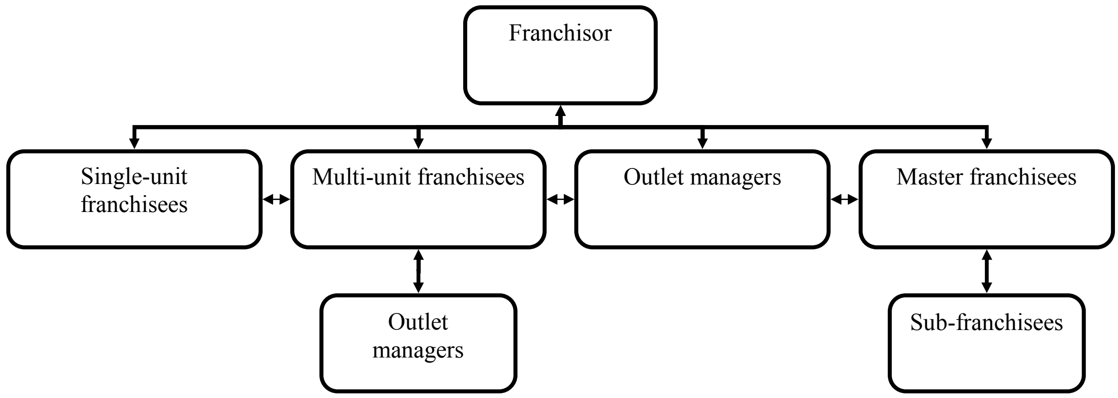

Figure 2: Framework of factors expected to influence control problems and control mechanisms in franchisor-franchisee relationships

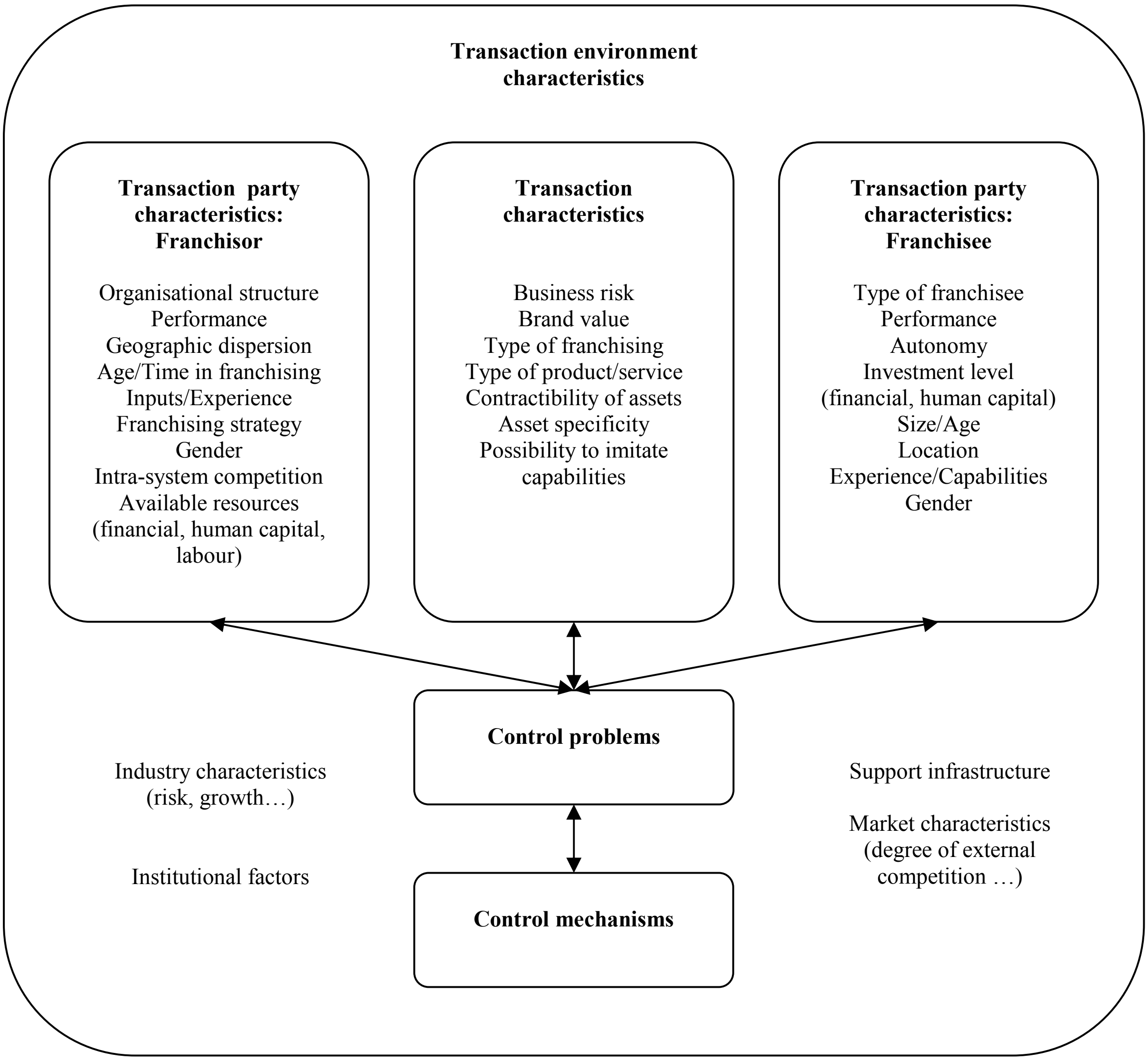

Table 1
Decision to franchise: Franchise initiation and subsequent propensity to franchise

Paper	Theory	Method	Summary
Panel A: General factors determining the extent of franchising			
Dant, Brush & Iniesta (1996)	Gender-based theories	Survey (2592 franchisors, 5 industry sectors, North-America)	Investigates the propensity of female franchisors to franchise. Finds evidence that the franchising route to business is not adequately exploited by women and that female franchisors tend to have smaller networks which may limit women's access to certain resources.
Michael (1996)	Agency theory	Archival (18 industries, U.S.)	Develop a choice model that explains the share of sales of an industry through franchise systems. Business risk and human capital both negatively influence the share of sales through franchise systems.
Stanworth & Curran (1999)	Sociological theory	Theoretical paper	Offers a more encompassing theoretical model on franchising using a mainly sociological approach, equally suited to quantitative or qualitative research approaches. The model offered takes the form of 15 general propositions spanning 3 levels: macro, organisational and individual.
Alon (2001)	Agency theory, Resource scarcity theory	Archival (361 firms, non-food retailing, U.S.)	Examines the proportion of franchised outlets in the US retailing sector. The proportion of franchised outlets is positively related to size (number of outlets) and geographical scope and negatively related to the rate of growth and the level of investment.
Combs & Ketchen (2003)	Agency theory, Resource scarcity theory	Meta-analysis (44 studies)	Examines the factors that lead firms to offer franchises. The findings offer support for several of the hypotheses grounded in agency theory (geographic dispersion, local managerial expertise, franchisor inputs, outlet size), but not for those grounded in resource scarcity (firm age, system size, growth rate, capital scarcity).
Tracey & Jarvis (2007)	Agency theory, Resource scarcity theory	Case study of Aspire (social venture franchising)	Examines the relevance of agency theory and resource scarcity theory for social venture franchising. Findings include that the costs of selection are higher than in business format franchising as franchisees are assessed on their ability to achieve social as well as commercial objectives and that the dual goals make goal alignment more complex and resource intensive than in business format franchising, leading to higher agency costs.
Williams (1998)	Agency theory, Wealth maximization	Archival (14550 single-owner firms of which 951 franchisees, 26 4-digit SIC industries, U.S.)	Examines the entrepreneur's decision to enter into the franchise contract. Finds that entrepreneurs are more likely to franchise than to start an independent business, the greater the industry risk, the greater the financial capital available at start-up, the higher the education level, the more salaried work experience. Prior business owners are less likely to franchise.
Kaufmann (1999)	-	Survey (63 participants of the Franchise Exposition, -, U.S.)	Explores the decision to purchase a franchise within the broader context of the decision to become self-employed. The decision to purchase a franchise is positively related to the perceived benefits of self-employment and the importance attached to the financial and business benefits of franchising. Franchising offers a greater choice of sectors.
Panel B: Multi-unit franchising			
Kaufmann & Dant (1996)	Agency theory, Resource constraints theory	Survey (152 franchisors, fast-food restaurant industry, U.S.)	Investigates the reasons to enter multi-unit franchising. The use of multi-unit franchising is positively related to growth rates and it contributes to the firm's overall franchising strategy in explaining that growth.

Kalnins & Lafontaine (2004)	-	Archival (all new units opened by seven of the largest nationally franchised chains, fast-food restaurant industry, Texas, period 1980 – 1995)	Examines empirically the extent of multi-unit ownership in franchised chains and the way in which franchisors allocate the ownership of units among franchisees. Finds that franchisors frequently use multi-unit franchisees, allow their multi-unit franchisees to own units that are close to one another and share market boundaries in ways similar to what they do with their company-owned units and favour franchisees with relevant experience in markets with similar demographic characteristics. Within chain incentives and efficiency issues drive the ownership allocation decisions in these chains.
Grünhagen & Mittelstaedt (2005)	-	Survey (192 franchisees, fast-food industry, Illinois)	Examination of the motivations of franchisees to participate in multi-unit franchising. The study finds evidence that area development franchisees and sequential multi-unit franchisees are equally investment-oriented but that the sequential multi-unit operators are more likely to seek fulfilment of entrepreneurial goals (intrinsic motivational factors).
Weaven & Frazer (2007)	Resource constraints theory, Efficiency theory, Agency theory	Interviews (23 franchisors, service and retail sectors, Australia)	Explores the strategic reasons justifying the recent emergence of multiple unit franchising arrangements within Australia from the perspective of the franchisor. Franchisors encourage franchisee subsystem development because of strategic, operational and performance advantages (agency cost minimization, system-wide uniformity, brand value, reward strategies, subsystem unit proximity, intra-system competition).
Panel C: Plural forms			
Dant, Paswan & Kaufman (1996)	Resource constraints theory	Meta-analysis of the existing literature on ownership redirection	Execution of a meta-analysis of the existing studies of ownership redirection in order to bring some clarity in the inconsistent empirical conclusions. Concludes that the operationalization of ownership redirection appears to significantly influence the conclusions reached by the empirical studies on ownership redirection.
Shane (1998a)	Agency theory	Archival (818-1111 franchisors, several industries, U.S., period 1991-1994)	Examination of franchisor characteristics on the ownership redirection hypothesis. Finds evidence that size, rate of growth and geographic dispersion have a curvilinear effect on the proportion of franchised units and that royalty rates and initial investment have a negative linear relationship.
Combs & Ketchen (1999)	Agency theory, Resource scarcity theory	Archival (91, restaurant industry, U.S., period 1989-1993) + expert panel	Examination of the changes in ownership patterns of franchise systems as they mature. Findings indicate that foreign expansion, asset specificity and capital scarcity have a positive impact on the degree of franchised units, while specific knowledge has a negative impact on the degree of franchised units.
Dant & Kaufmann (2003)	Signalling theory, Resource acquisition theory	Survey (152 franchisors, fast food restaurant industry, U.S.)	Exploration of the phenomenon of plural forms in franchising. Results indicate that there is some evidence of a greater tendency to permanently convert existing franchised outlets to company-owned outlets as fast food systems mature and gain greater access to resources.
Castrogiovanni, Combs & Justis (2006a)	Agency theory, Resource scarcity theory	Archival (439 franchisors, several industries, U.S.)	Examination of factors influencing changes in the franchisors' propensity to franchise. Finds evidence that franchisors increase their proportion of franchised units when they have a multinational scope and over time. Franchisors with large outlets and who grew in size emphasize firm ownership.
Castrogiovanni, Combs & Justis (2006b)	Agency theory, Resource scarcity theory	Archival (102 franchisors, several industries, U.S.)	Examination of the effects of capital scarcity on firms' emphasis on growth through franchising versus company-ownership. The proportion franchised exhibits a cubic pattern as franchisors age: increasing rapidly at first, decreasing, and then increasing again.
Windspenger & Dant (2006)	Resource scarcity theory, Agency theory, TCE	Survey (83 franchisors, several industries, Austria)	Investigation of ownership redirection and finds that it will result from an increase in the contractibility of the franchisee's local market assets (e.g. local market information) and the

			resultant increase in the franchisor's bargaining power during the contract period.
Bürkle & Posselt (2008)	Resource scarcity Agency theory, Signalling theory	Analytical	Examination of why franchising companies use a mixture of franchisee-owned and franchisor-owned units. Finds that the costs of risk and controlling franchised units explain the varying fraction of franchisee-owned to total selling units.
Dant, Perrigot & Cliquet (2008)	Agency theory, Resource constraints theory, Signalling theory	Archival (471 U.S. chains, 457 French chains, 468 Brazilian chains, service and product & retail sector)	Exploration of the phenomenon of plural forms in franchising across the United States, France and Brazil. Findings indicate that the proportion of company-owned units within the network increases in the U.S. with company age and decreases with average total required investment and cash liquidity requirement; increases in Brazil with total network size and decreases with incidence of internationalization. For French model no statistically significant results.
Panel D: Internationalization strategy			
Fladmoe-Lindquist (1996)	Administrative efficiency theory, Risk management theory, Resource-based theory	Theoretical paper	Examines the capabilities of international franchisors. Concludes that international franchising requires a specific set of capabilities and that the ability to develop such competencies shifts both forward and backward over time in a dynamic process.
Shane (1996b)	Agency theory	Survey (815 franchisors, several industries, U.S.)	Examination of which capabilities of franchisors encourage them to expand internationally. Finds that franchisors who seek foreign franchisees have developed a greater capability to bond against and to monitor potential franchisee opportunism than their domestic counterparts.
Contractor & Kundu (1998)	TCE, Strategic theory of organisational capability and knowledge, Agency theory	Survey (720 firms with foreign operations, worldwide, hotel industry,)	Examines what determines the choice of organisational mode for international interfirm collaborations (fully-owned, equity joint venture, franchising, and management service contracts). Finds that both host country environment and firm strategy influence the selection of organisational mode.
Erramilli, Agarwal & Dev (2002)	Organisational capability perspective	Survey (139 firms, worldwide, hotels belonging to the Global Hoteliers Club)	Examines the choice between franchising and management-service contracts among service firms for organizing overseas activities. Finds that imperfectly imitable capabilities push firms towards internal modes and that the availability of a support infrastructure is critical to the type of mode chosen.
Welsh, Alon & Falbe (2006)	-	Conceptual	Summarizes the main research that has been conducted so far on international retail franchising in emerging markets and presents a conceptual model of the stakeholders of international retail franchising.
Dunning, Pak & Beldona (2007)	Ownership, Allocation and Internalization (OLI) paradigm (see Dunning (2000))	Survey (72 franchisors, several industries, U.S. & U.K.)	Examines the foreign ownership choices of international franchisors and tests why a certain group of franchisors would like to own foreign outlets instead of franchising them. Finds that international franchisors that enter foreign markets via an equity mode tend to have an exploration approach (e.g. learning knowledge), while franchisors that enter via the franchising mode tend to have an exploitation intention (e.g. market-seeking).

Table 2
Franchise performance

Paper	Theory	Method	Findings
Panel A: Growth & survival			
Shane (1996a)	Agency theory	Archival (138 franchisors, several industries, U.S.)	Investigates the implications of hybrid organisational arrangements for firm growth and survival. Hybrid organisational forms provide a way to overcome moral hazard and adverse selection with respect to new managers and consequently overcome managerial limits to firm growth and lead to faster growth. Franchising as an expansion strategy has a positive effect on growth and survival.
Bates (1998)	Agency theory	Archival (52088 young establishments, restaurant industry, U.S., period 1986 – 1987)	Examines the survival patterns among franchise and non-franchise small firms and establishments that entered business during 1986 and 1987. Purchase of a franchise is unlikely to reduce the risks facing a new business start-up because of the many newly-opened units in mature franchising niches owned by multi-unit franchisees having greater experience and resources. The risk of new franchisees is larger than the risk of new independent entrepreneurs, while the risk of new independent entrepreneurs is larger than the risk of multi-unit franchisees who open a new unit.
Falbe & Welsh (1998)	Cross-cultural theory (see Hofstede (1980)); Resource scarcity theory, Agency theory, Risk spreading theory, Life cycle theory	Survey (- franchisors, several industries, Canada, Mexico & U.S.)	Analyzes franchise executives' perceptions of the importance of a number of characteristics associated with franchisee success and failure. Finds significant differences in the perceptions of most of the factors of success and failure (system quality, brand name, local environment, communication, franchisor activities, and franchisee activities) among franchisor executives based on country location and based on franchise strategy (= % of franchisee-owned units).
Lafontaine & Shaw (1998)	-	Archival (4000 franchisors, several industries, U.S., period 1980-1992)	Examines issues of growth, entry and exit into franchising by franchisors in business format franchising. Finds that the number of business-format franchisors is highly correlated with the number of units in these chains and that business-format franchising growth is at best commensurate with the growth rate of the economy as a whole.
Shane (1998b)	Agency theory, Resource constraints theory	Archival (157 new franchisors, several industries, U.S.)	Investigates whether new franchise systems are more likely to survive if they are structured to economize on agency costs. Finds that franchise systems which are structured to economize on agency costs are more likely to survive. Passive ownership, franchisee cash investment, franchisee experience and geographic concentration have negative effects on system failure, while the complexity of the franchise system and master franchising have positive effects. Rejects the resource constraints theory prediction.
Shane & Foo (1999)	Economic theory, Institutional theory	Archival (1292 business format franchisors established between 1979 and 1996, several industries, U.S.)	Explores whether institutional theory adds to economic explanations of the survival of new franchise systems. The results show that new franchise systems are more likely to survive if they both gain legitimacy as well as efficiency: sociological explanations enhance economic explanations for the survival of new franchise systems.
Azoulay & Shane	Evolutionary theory	Analysis of 170 new franchise	Demonstrates that firms are selected for survival on the basis of contracting efficiency in

(2001)		contracts & interviews (16 founders of new business format franchise systems, several industries, U.S.)	the franchising context. New franchise chains that adopt exclusive territories are more likely to survive over time than chains that do not. Successful and failed entrepreneurs possess different information about how to design contracts: those whose 'contractual experiments' prove to be more consistent with economic theory are rewarded for their superior information with survival.
Shane (2001)	Efficient contracting theory	Archival (2997 business format franchisors, several industries, U.S., period 1984 – 1996)	Examines the effect of incentive contracting on the survival of business format franchise systems. Finds that large firms that adopt policies which screen agents, signal quality and control agent's free-riding are more likely to survive than large firms which do not adopt these policies. Changes in contracting hazards resulting from changes in system size determine the necessary changes in franchisor policies to ensure firm survival.
Castrogiovanni & Justis (2002)	Resource scarcity theory, Agency theory	Archival (246 franchisors, several industries, U.S., period 1991 – 1998)	Identifies factors associated with network growth of franchisors. Finds that both strategy and context exert influences on growth, though strategic influences may be greater than contextual ones. Growth orientation and start-up costs are found to have positive effects, while industry growth and age are found to have negative effects on network growth.
Grünhagen & Dorsch (2003)	Attitude theory	Survey (206, fast-food industry, U.S.)	Examines whether franchisee perceptions of franchisor value change over time. Finds that franchisees had the strongest positive perceptions when asked to recall an earlier decision to expand their franchise operations. These opinions weakened when franchisees contemplating expansion of their operations were asked for their current and anticipated future opinions of franchisor value.
Kalnins & Mayer (2004)	-	Archival (2474 units, pizza restaurant industry, Texas)	Investigates the importance of local and distant congenital (= the experience of the franchisor and the owner at the time of the unit's founding) experience for unit survival. Finds that the retail and service units of multiunit owners, whether affiliated with franchisors or not, benefited from their owner's local congenital experience and that units did not benefit from distantly gained experience. Local experience of other owners affiliated with the same franchisor reduced failure rates of units. Franchisors' distant experience did not prove beneficial. Among units affiliated with franchisors, a complementary effect was found for owner and franchisor congenital experience.
Stanworth et al. (2004)	Resource-based perspective	Interviews (8 franchisors, several industries, U.K.)	Develops a resource-based view of organisational development by identifying the key importance of human and intellectual capital in franchising. Recognizes the advantage of multi-partner franchise system start-ups, the benefits of franchise system piloting and the advantage of prior experience of franchising.
Shane, Shankar & Aravindakshan (2006)	Signaling theory, Resource constraints theory, Resource-acquisition theory	Archival (1292 business format franchise systems, 152 industries, U.S., period 1979 – 1996)	Examines the use of strategic actions (pricing policy, strategic control decisions) of franchisors to attract partners and increase system size. Franchisors that grow larger lower their royalty rates as the systems age, have low up-front franchise fees that rise over time, own a small proportion of outlets and lower that percentage over time, keep franchisees' initial investment low and finance their franchisees.
Szulanski & Jensen (2006)	Theory of presumptive adaptation	Repeated-treatment quasi-experiment, archival, interviews and qualitative data (case of a postal services firm, Israel, period August 1995 until July	Investigates how adherence to recommended practices affects the rate of network growth in the host country. Finds that presumptive adaptation (=adaptation that removes the diagnostic value of the original practice) stalls network growth, while close adherence to the original practice results in remarkably rapid network growth.

		2001)	
Panel B: Learning & entrepreneurship			
Ingram & Baum (1997)	Learning theory, Theory of strategy	Archival (1135 chains, hotel industry, U.S., period 1896 – 1985)	Investigates the influence of own experience and of two types of industry experience) on the failure rates of US hotel chains and briefly analyzes the effect of franchisors on the learning of hotel chains. Finds that franchisors are superior learners and that franchisees did not enjoy a benefit from their experience with franchised units. Franchisors represented a radical change for the hotel chain industry.
Falbe, Dandridge & Kumar (1998)	-	Archival & survey + interview data (50 franchisees, 8 different industries, U.S.)	Examines the influences of the organisational context of the franchisor (size, age, growth rate, and time in franchising) on the entrepreneurial strategies of franchisors, their innovation efforts, and franchisor support of entrepreneurial activities by franchisees as observed by their franchisees.
Kaufmann & Dant (1998)	Personal traits, processes and activities perspective, Resource constraints theory, Agency theory	Theoretical paper	Explores the relationship between franchising and entrepreneurship in general and their research domains in particular. Investigates the franchisor's role in creating an innovative concept, the franchisee's role in bringing the franchisor's concept to new markets, the franchisee's acceptance of risk, and the special issues surrounding the use of multi-unit franchising. They conclude that franchising provides a unique and fertile setting for research in entrepreneurship.
Sorenson & Sørensen (2001)	Learning theory	Archival (152 chains, restaurant industry, period 1992-1998)	Investigates whether the mix of company-owned and franchised units affects the balance between standardization and adaptation and thereby influences chain performance. Finds that managers of company-owned outlets exploit more and entrepreneurs managing franchises explore more. Company-owned and franchised units complement each other because of the different types of organisational learning.
Clarkin & Rosa (2005)	Entrepreneurial teams	In-depth interviews & archival (1201 franchises, several industries, North America)	Investigates entrepreneurial teamwork and finds that creativity and adaptation are not always confined to the franchisors, but that cooperative and adaptable relationships allow room for entrepreneurial activity by franchisees. Restrictive systems are likely to perform less well.
Panel C: Fit with strategy and effect on performance			
Baucus, Baucus & Human (1996)	Theory of strategic management, Theory of entrepreneurship	Survey (162 franchisees, fast-food restaurant industry, U.S.)	Analyze how consensus between franchisors and franchisees on the indicators of means and ends of competition relates to competitive advantage and performance. The authors believe dissension on competitive methods arises as franchisees initially move from a knowledge disadvantage relative to franchisors to a knowledge advantage associated with the accumulation of local experience. Consensus on means for product and brand development relates positively to the franchise system's competitive advantage and consensus on the means of pursuing efficiency exhibits a positive relationship with business performance and franchisees' satisfaction.
Litz & Stewart (1998)	-	Survey (307 stores, retail hardware industry, U.S.)	Compares the relative competitive position of two common organisational forms, namely the trade-name franchise and the independent retailer. Finds that franchisees compete against a large entrant by increasing product diversity, but decreasing product complexity, service diversity and service complexity. Independents tend to reduce

			product diversity and increase service diversity and service complexity.
Michael (1999a)	-	Archival (30 franchisors, restaurant industry, U.S.)	Examines the effectiveness of franchising as an instrument for differentiation for the franchisee. On balance, the results support the theory that at least in the restaurant industry franchising is providing product differentiation to entrepreneur-franchisees.
Achrol & Etzel (2003)	Marketing channel theory, Contingency theory	Survey (439 single-unit franchisees, several industries, -)	Studies the strategic goals of reseller firms in franchise channels and how these goals are related to performance. Finds that in growth markets productivity goals are important for performance; in mature markets adaptation goals are important; in rich environments adaptation goals are important; in lean environments productivity goals are important; in stable environments productivity goals are important; in dynamic markets adaptation goals are important.
Hoffman & Preble (2003)	Theory of competitive advantage	Survey (72 franchisors, 8 industry sectors, North-America)	Offers an in-depth treatment of conversion franchising and the effect on competitive advantage. Finds that a franchisor is more inclined to use conversion franchising when he has increased levels of experience, when conversion franchising offers economic resources and to a lesser extent, when it offers skills and knowledge. Resources and skills serve as sources of competitive advantage.
Michael (2003)	Agency theory, Resource scarcity theory	Archival (100 franchisors, restaurant industry, U.S.)	Investigation of whether first mover advantages exist in the restaurant industry. Evidence found of the existence of a first mover advantage through pre-emption of valuable real estate and desirable mind space of customers, which supports the idea of franchising as a method of resource acquisition.
Combs, Ketchen & Hoover (2004)	Agency theory, Resource constraints theory, Strategic groups approach (see Porter (1980))	Archival (65 chains, restaurant industry, U.S., period 1991 - 1995)	Development of the idea that strategic groups exist among franchisors and that performance differs among these groups. 3 strategic groups are found, namely agency franchisors, agency franchise minimizers and resource scarce franchisors. The strategic group most influenced to franchise out of resource scarcity exhibited poorer performance than the other two groups.
Yin & Zajac (2004)	Contingency theory	Archival & qualitative (6000 units from 1 chain, pizza restaurant industry, U.S., period 1991-1997)	Investigates whether performance differences between franchised and company-owned units are attributable to the matching of one structure with a corresponding appropriate strategy. Finds that franchised stores with their more flexible and decentralized structures are more likely to pursue strategies that emphasize flexibility and local adaptation and that company-owned stores tend to emphasize predictability and control. The strategy-structure fit leads to better performance.
Srinivasan (2006)	Contingency theory	Archival (55 chains, restaurant industry, period 1992 – 2002)	Examines the relationship between a firm's dual distribution strategy and its intangible firm value. The results support a four-segment model: dual distribution increases intangible value for some firms, but decreases intangible value for others, both independently and in conjunction with other firm characteristics (age, scope of vertical integration, advertising, financial leverage and financial liquidity).

Table 3
Control problems and control mechanisms

Paper	Theory	Method	Findings
Panel A: Control problems: Control versus autonomy			
Spinelli & Birley (1996)	Micro-economic theory, Relational exchange theory, Transaction cost economics, Conflict theory	Theoretical paper	Develops a theoretical explanation of the relationship between the franchisor and the franchisee and the nature of conflict in the relationship from the perspective of different theories. Recognizes that franchising is an inter-organisational form and synthesizes the structure, rationale, governance and strength of the relationship through theoretical linkages and the conflict literature.
Bradach (1997)	Contingency theory	Ethnographic field study (5 chains, restaurant industry, U.S.)	Models how chains use a plural form to maintain uniformity and achieve system-wide adaptation to changing markets. Finds that organisational structure, control systems, career paths and strategy-making processes are four means through which the combination of company and franchised units help chains achieve their objectives.
Kaufmann & Eroglu (1998)	-	Theoretical paper	Examines the tension between standardization and local adaptation by incorporating consumer behaviour and globalization research into the analysis of domestic format franchising. Concludes that finding the balance between standardization of the core elements and permitted local market adaptation of the peripheral elements remains one of the greatest challenges facing franchisors.
Pizanti & Lerner (2003)	Agency theory, Exchange theory	Interviews & archival (3 chains, fast-food industry, Israel)	Describes the control and autonomy paradox in franchising. The findings indicate different forms of integration of control and autonomy in the three chains (two global chains, 1 domestic chain): conceptualizing control and autonomy as multidimensional concepts enables a focus on the integration of control and autonomy (complements rather than a paradox between them).
Paik & Choi (2007)	Agency theory, Marketing channels theory, Resource dependence theory	Interviews (42 franchisor & franchisees, fast-food industry, U.S. & Europe)	Examines the similarities and differences between domestic and international franchisees in the amount of control exerted by their U.S. franchisors and the degree of autonomy accorded to the franchisees. Finds that international franchisees have more autonomy and that experienced international franchisees are less likely to demand autonomy, while experienced U.S. franchisees seek more autonomy. U.S. franchisors and international franchisees that experience difficulties tend to seek collaboration rather than compete for control or autonomy.
Panel B: Control problems: Free-riding and opportunism			
Dahlstrom & Nygaard (1999)	Transaction cost economics	Survey (179 retailers, 23 area sales managers, oil refinement industry, Norway)	Examines opportunistic behaviour by the franchisor. The theoretical model frames opportunism as a factor that increases transaction costs in inter-organisational exchange. The authors find that franchisee's efforts to constrain ex-post transaction costs in inter-organisational exchange by cooperative interaction and formalization can function as control structures that alleviate opportunism.
Kalnins (2004)	-	Archival (range 334 – 782 units, hotel industry, U.S., period 1990-1999)	Examines the phenomenon of encroachment (= when franchisors add new units of their brands proximately to their franchisees' existing units). Finds that encroaching behaviour is caused by incentives that result from the governance form of franchising and is not

			simply an outcome that accompanies all expansion.
Kidwell, Nygaard & Silkoset (2007)	Agency theory, Exchange theory, Marketing channels theory	Survey (192 franchise dealers, gasoline distribution industry, Norway)	Investigates contextual antecedents of free-riding by franchisees on franchisor brand reputation and effects of free-riding on performance in an MNE's franchising network. Finds that structural elements (increased formalization, decentralized decision-making), interactions between franchisor representatives and franchisee dealers and market-related factors (external competition) are associated with lower levels of franchisee free-riding.
Panel C: Control problems: Marketing mix			
Lafontaine (1999)	-	Survey (franchisees from 36 chains, restaurant industry, U.S.)	Assesses the effect of franchising on price dispersion within chains in fairly narrowly defined geographical areas. Finds that franchisors do not aim for fully uniform prices, even on the corporate side of their chains, the degree of price dispersion is highest for firms with both franchised and company-owned outlets, and price dispersion for fully franchised chains is greater than for fully corporate chains.
Michael (1999b)	Agency theory	Archival (35 chains, restaurant industry, U.S.) (38 chains, hotel industry, U.S.)	Analyzes empirically advertising levels based upon the extent of franchising in restaurant chains and hotel chains. Finds that advertising falls with the level of franchising in both industries, controlling for size of chain, geographic dispersion, market segment, sale of alcohol, resource availability and quality.
Michael (2002)	Agency theory, Resource scarcity theory	Archival (35 chains, restaurant industry, U.S.)	Investigates whether franchise chains, as hybrid forms, can coordinate the elements of the marketing mix. Finds that franchise chains appear to be unable to coordinate the elements of the marketing mix, compared with corporate chains.
Panel D: Formal control: Contracts and formalization			
Leblebici & Shalley (1996)	Transaction cost economics, Relational contract law	Archival (30 contracts, several industries, U.S.)	Examines whether contract content influences both the expansion of the franchise operations through new franchises and the amount of dispute between the two sides of the franchise contracts. The more relational a contract becomes, the more likely that it would include various dispute resolution mechanisms. The commencement and termination aspect should be as discrete as possible and the operations and conduct provisions of the contract should be in relational terms to give the parties the ability to respond to changes in business conditions without renegotiating the contract.
Desai (1997)	-	Theoretical paper	Studies the role of the advertising fee in improving channel coordination by solving a mathematical model under different assumptions. Finds that in the simple case with one franchisor and two identical franchisees, the advertising fee allows the franchisor to commit to a specific level of advertising spending at the time of contract acceptance; the lump sum advertising fee is better than the sales-based advertising fee. In the case of one franchisor and two franchisees whose markets differ in terms of advertising's impact on sales, the sales-based advertising fee is preferred. In the case of the franchisor offering to contribute a matching fraction of the advertising fee to the advertising fund, the sales-based advertising fee is preferred.
Nault (1997)	Agency theory	Theoretical paper	Illustrates how information technology (ownership of customers) can enable a new form of the horizontal networked organisation through the provision of appropriate incentives

			to key actors within franchise arrangements. The underlying problem is that individual franchisees under-invest, because they do not account for the benefits accruing to other franchisees from their investment. A possible solution for this problem is the system of ownership of customers, which is a combination of identifying individual customers with individual franchises, monitoring customer transactions across franchisees, and transferring benefits between franchisees based on those transactions.
Brickley (1999)	Agency theory	Archival (367 chains, several industries, U.S.)	Develops testable implications about three provisions commonly observed in franchise contracts (restrictions on passive ownership, area development plans, and mandatory advertising expenditures). These provisions are most likely when there are significant externalities among the units within the franchise system - these incentive instruments are complements.
Lafontaine & Shaw (1999)	Signaling theory, Reputation model	Archival (1000 franchisors, several industries, U.S., period 1980-1992)	Provides evidence on how franchisors adjust the key monetary terms of their contracts, namely their royalty rates and franchise fees, as they gain franchising experience. Franchisors that do change their fees do not systematically increase or decrease their royalty rates as they become better established: variation in royalty rates and franchise fees is almost exclusively explained by across-firm differences. There is little apparent trade-off between royalty rates and up-front franchise fees.
Brickley (2002)	Agency theory	Archival (711 chain, several trade & service industries, U.S.)	Provides evidence on the determinants of royalties and upfront fees in share contracts by examining how state franchise termination laws affect franchise contracts. Finds that the two-sided moral hazard model explains the terms in franchise contracts and that termination laws increase the relative importance of franchisor effort. Overall, franchisees appear to pay a higher price for franchises in states with protection laws.
Dnes (2003)	Transaction Cost Economics	Theoretical model & Interviews (franchisor and 3 franchisees on average from 57 chains, several industries, U.K.)	Examines the nature of hostages in long-term contracts. A hostage is placed to assure a trading partner that a contracting party will not cheat. Finds that franchising contracts are a good illustration of the systematic development of mini hostages that are matched to particular forms of contractual discipline.
Brickley, Misra & Van Horn (2006)	Naïve franchisee theory, Standard economic theory	Archival (1888 franchisors, several industries, U.S.)	Examines effects on contract duration of franchising contracts. Finds that contract duration is positively and significantly related to the franchisee's physical and human capital investments. Larger, more experienced franchisors offer longer-term contracts than do newer franchisors. Firms seem to learn in designing optimal contract terms.
Cochet & Garg (2008)	Learning theory	Archival (contract provisions of 3 chains, restaurant, food and retailing industries, Germany, range 8-18 years) & interviews (representatives of 3 chains, restaurant, food and retailing industries, Germany)	Explores the evolution of formal contracts. Finds that franchisors remain bounded rational: learning explains contract design capability better than foresight, a new management and the pursuit of uniformity lead to contract changes and the presence of an active franchisee council promotes the efficiency of the contract change process.
Panel E: Formal control: Structure			
Wu (1998)	Agency theory	Archival (155 units (90 franchised, 65 independent), motel industry, U.S.)	Starts from the idea that a franchising structure provides a solution to problems between trademark manufacturers and its dealers. Analyzes the price differential between franchised and independent motels and examines how the initial franchise fee and the presence of repeat customers are related to the price a franchised firm charges for his

			brand name product. Finds that high fee franchises charged more than both independent motels and low fee franchises, motels (franchised or not) serving primarily non-repeat customers charged less than motels that served repeat customers and that low fee franchises in both repeat and non-repeat environments charged about the same price as independent motels.
Lafontaine & Shaw (2005)	Agency, Signaling & Resource scarcity theory	Archival (4842 franchisors (19162 franchisor-year observations), several industries, U.S. & Canada, period 1980-1997)	Investigates how the targeted rate of company-ownership varies across firms. Finds that franchisors with high brand name value have high rates of company ownership: they have incentives to exert more control and by owning their outlets they can better protect their brands from franchisee free-riding.
Panel F: Informal control			
Phan, Butler & Lee (1996)	Agency theory, Strategic perspective	Survey (160 franchisees of 2 franchisors, heavy truck industry, U.S.) + Interviews (senior executives from 1 chain & 7 franchisees of 4 chains, heavy truck industry, U.S.)	Develops a theoretical framework for understanding the informal interaction dynamics between franchisors and franchisees. As it is impossible for franchisors to specify all future actions in contractual terms, they compensate this by continually attempting to influence their franchisees by suasion. Finds that franchisees prefer profit-oriented strategies and that franchisors prefer sales-oriented strategies and that either one of the two goals is emphasized instead of being congruent. In the long-term, franchisors attempt to modify franchise contracts to implement sales-gain strategies.
Dant & Nasr (1998)	Agency theory	Interviews (case of Lebanon) & survey (20 U.S. based franchisors with franchisees in the Middle East and Africa, several industries , U.S., Middle East, Africa)	Investigates the issue of control and control techniques employed by franchisors to monitor the performance of their franchisees in distant markets with special focus on the role of information exchange. Finds that the extent of competition faced by franchisees is an incentive to provide information to franchisors and that the age of the relationship is a disincentive to sharing information with the franchisors.
Jambulingam & Nevin (1999)	Agency theory	Survey (154 franchisees, several industries, U.S.)	Examines the relationship between key franchisee selection criteria and key measures of outcomes desired by franchisors. Finds that certain franchisee attitudes towards business can be used as an effective input control strategy by franchisors, because they explain a substantial portion of the variance in franchisees' outcomes desired by franchisors.
Michael (2000)	Transaction cost economics, Agency theory, Life cycle theory, Porer's five forces	Archival (99 franchisors, restaurant industry, U.S.)	Examines which factors can lead to a greater bargaining power of the franchisor. Finds that dual distribution, selecting inexperienced franchisees, the granting of exclusive territories and employing a long training program increase the franchisor's bargaining power and the franchisee's compliance with franchisor standards and decrease litigation.
Ullrich, Wieseke, Christ, Schulze & van Dick (2007)	Social identity approach, Identity-matching principle	Survey (101 managers and 281 employees from 1 franchise system, travel agency industry, Germany)	Examines corporate and organisational identification in franchisee organisations. Finds that organisational identification predicted customer-oriented behaviour on the level of the local organisation, whereas corporate identification predicted attitude toward corporate citizenship behaviour. These relationships were enhanced in organisations where managers displayed the respective behaviour themselves to a greater extent.
Cochet, Dormann & Ehrmann (2008)	Agency theory	Survey (208 franchisees from 11 chains, several industries, Germany)	Tests the argument that chains counterbalance the loss in control inherent to autonomy with relational governance mechanisms. Finds that the more relational governance becomes important, the weaker agents' incentives are aligned with the interests of the entire network. Multi-unit ownership and franchisee success attenuated, and competition exacerbated the need for relational control, while age of the relationship and

geographic distance did not emerge as significant moderator variables.

Table 4: Summary of factors influencing franchise initiation, performance and control from the perspective of the franchisor and the franchisee

		Franchisor	Franchisee
Franchise initiation and subsequent propensity to franchise	**Factors influencing the decision to franchise**	▪ Business risk (-) ▪ Human capital (-) ▪ Firm growth rate (-) ▪ Investment level (-) ▪ Outlet size (+) ▪ System size (+) ▪ Geographical scope (+) ▪ Local managerial expertise (+) ▪ Franchisor inputs (+)	▪ Industry risk (+) ▪ Financial capital available at start-up (+) ▪ Education level (+) ▪ Salaried work experience (+) ▪ Perceived benefits of self-employment (+) ▪ Importance of financial and business benefits of franchising (+) ▪ Choice of sectors (+) ▪ Prior experience as a business owner (-)
	Factors influencing the decision to enter into multi-unit franchising	▪ System growth rate (+) ▪ Agency cost minimization (+) ▪ System-wide uniformity (+) ▪ Brand value (+) ▪ System reward strategies of granting additional units (+) ▪ Subsystem unit proximity (+) ▪ Intra-system competition (-) ▪ Incentives and efficiency issues	▪ Goals of multi-unit franchisee type (area developers and versus sequential multi-unit operators)
	Factors influencing the proportion of franchised units as compared to company-owned units	▪ Franchisor size (-) ▪ Royalty rates (-) ▪ Access to resources (-) ▪ Specific knowledge of the firm (-) ▪ Contractibility of local assets (-) ▪ Incidence of internationalization (+) ▪ Cash liquidity requirements imposed on franchisees (+) ▪ Capital scarcity (+) ▪ Asset specificity (+) ▪ Level of initial investment (+/-) ▪ Age (+/-) ▪ System size (-/curvilinear) ▪ System rate of growth (curvilinear) ▪ Geographic dispersion (curvilinear)	-
	Factors influencing the use of franchising in an inter-nationalization strategy	▪ Host country environment ▪ Firm strategy ▪ Availability of a support infrastructure ▪ Possibility to imitate capabilities (+)	-

Factors influencing franchise performance	**Factors influencing franchise system growth**	▪ Franchisor growth orientation (+) ▪ Multi-partner franchise system start-ups (+) ▪ Franchise system piloting (+) ▪ Franchisor prior franchising experience (+) ▪ Lowering of royalty rates as the system ages (+) ▪ Low up-front franchise fees rising over time (+) ▪ Low initial investment (+) ▪ Close adherence to the original franchise practice (+) ▪ Industry growth (-) ▪ Franchisor age (-)	▪ Franchisee start-up costs (+) ▪ Financing of the franchisees' purchases of outlets by the franchisor (+) ▪ Adaptation by the subsidiary that removes the characteristic or diagnostic value of the original franchising practice (-) ▪ Positive franchisee perceptions about their franchisor's value (+)
	Factors influencing survival and failure of the franchise system as a whole	▪ Geographic concentration of the system (+) ▪ Legitimacy of the system (+) ▪ Efficiency of the system (+) ▪ Contracting efficiency (+) ▪ Adoption of exclusive territories (+) ▪ Policies to screen agents (+) ▪ Complexity of the franchise system (-) ▪ Master franchising (-)	▪ Passive ownership by the franchisee (+) ▪ Franchisee cash investment (+) ▪ Franchisee experience (+)
	Factors influencing survival and failure of business units	▪ Local and distant experience	▪ Local and distant experience
	Factors influencing learning & entrepreneurship by each of the parties	▪ Firm size ▪ Firm age ▪ Firm growth ▪ Time between the establishment of the company and the establishment of a franchising system	▪ Cooperative and adaptable relationships between franchisors (+) ▪ Restrictive systems (-)
	Factors on the strategy-performance fit	▪ Performance effects of franchisor's strategy (aspects studied: conversion franchising strategy, first-mover advantage, resource scarcity and dual distribution strategy)	▪ Link between franchisees' strategies and performance (aspects studied: small businesses' strategy, product differentiation, strategy-structure fit)
Control of franchising relationship	**Control problems caused by the other party**	▪ Tension between control and autonomy (aspects studied: franchised units vs. company-owned units and domestic versus international franchisees) ▪ Coordination of the marketing mix (especially w.r.t. price dispersion within a chain and levels of advertising) ▪ Free-riding and opportunistic behaviour by the franchisee (especially w.r.t. brand reputation)	▪ Free-riding and opportunistic behaviour by the franchisor (e.g. encroachment)
	Control mechanisms used to control the other	▪ Contract and formalization (aspects studied: dispute resolution clauses, advertising fees, restrictions on passive	▪ Cooperative interaction and formalization

	party	ownership, area development plans, royalty rates, initial franchising fees, contract duration, influence of experience on design of optimal contracts and information technology) ▪ Dual distribution (with higher levels of company-ownership for higher levels of control) ▪ Multi-unit franchising (to increase chain uniformity and to decrease agency costs) ▪ Informal control mechanisms (aspects studied: informal dynamics between the franchisor and the franchisee, the franchisee's willingness to provide information, the franchisee's attitude towards business, the franchisee's identification and the franchisor's bargaining power)	