Franchising Research Frontiers for the Twenty-First Century

Rajiv P. Dant\textsuperscript{a,}*\textsuperscript{,} Marko Grünhagen\textsuperscript{b,1}, Josef Windsperger\textsuperscript{c,2}

\textsuperscript{a}Michael F. Price College of Business, The University of Oklahoma, 307 West Brooks, Norman, OK 73019-4001, USA
\textsuperscript{b}Eastern Illinois University, School of Business, 4002 Lumpkin Hall, Charleston, IL 61920, USA
\textsuperscript{c}Center of Business Studies, University of Vienna, Brünner Strasse 72, A-1210 Vienna, Austria

Abstract

About four decades ago, during the formative years of the franchising industry, visionary authors like Oxenfeldt and Kelly (1968) and Ozanne and Hunt (1971) proposed a rich slate of research agenda which still continues to guide some of the contemporary scholarship in the franchising domain. This article (1) explicates some of the unique features of the franchising context that presumably inspired these pioneering authors, (2) discusses four established elements of ontology unique to franchising and isolates the remaining research gaps therein, (3) specifies a new slate of more contemporary research agenda for future scholarship, and (4) concludes with a brief discussion of the ten articles featured in this Special Issue of the \textit{Journal of Retailing} dedicated to the theme of Franchising and Retailing.

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Introduction

Modern franchising in USA dates back to at least the 1850s when Isaac Singer attempted to increase the distribution of his sewing machines by establishing a franchise system. Other examples of early American franchising include the franchising of soft-drink bottlers, automobile and truck dealerships and gasoline service stations. These latter sectors constitute what has been labeled as “product trade-name” or “traditional” franchising to distinguish it from the more recent emergent “business format” franchising (Baker and Dant 2008). The key differences lie in the complexity of relationships between franchisors and franchisees, and the modes of payments from franchisees to franchisors. In the product trade-name franchises, the franchisee functions virtually like an authorized dealer with some territorial exclusivity (e.g., Ford dealership, Shell Gas Station), and generally pays the franchisor based on gross margins realized from the sale of the branded merchandise. In business format franchises (e.g., Dunkin Donuts, Marriott’s), on the other hand, the franchisee is expected to strictly follow a detailed operational regimen specified by the franchisor through an operations manual and pays franchisors through a variety of royalties and fees.

The 1930s witnessed a period of rapid growth in business format franchising in the United States. During this time early American franchisors such as Howard Deering Johnson and Reginald Sprague began franchising their restaurant chains. The 1950s again saw a boom in franchising as massive numbers of fast food restaurants, diners and motel franchises opened up along the newly constructed interstate highway system. Some of the well-known franchises (and their inaugural years) include Kentucky Fried Chicken (1930), Dunkin Donuts (1950), Burger King (1954), and McDonald’s (1955).

Today, franchising is big business, and there are over 3,000 franchise systems in the USA (Franchise Facts 2011). This count represents 901,093 franchisees employing approximately 18 million people, in turn generating an economic output of over $2.1 trillion which equals about 40.9% of the U.S. retailing sector (see Table 2 and Appendix B discussed later). It is also an American invention that has been cited as one of the fastest growing U.S. exports to the world (House Committee on Small Business 1990); and it is arguably the fastest growing form of retailing in the world (Dant, Perrigot, and Cliquet 2008). Franchising is also somewhat unique from a public policy perspective in that it is a net net-foreign exchange earner. And since the franchisors’ earnings are based on royalties (typically expressed as a percent of franchisees’ sales) the franchising sector does not create future foreign competitors over time that come...
back to compete in the domestic economies à la the international product life cycle (IPLC)\(^3\) phenomenon (Gillespie, Jeannet, and Hennessey 2007).

The rest of this paper is organized as follows. We begin with asserting certain self-evident characteristics of the franchising context. This is followed by a discussion of four well-known exemplars of ontology unique to the franchising context. Next we attempt to take a peek at the crystal ball and specify other research topics we fervently wish future franchising scholars will pursue. Finally, we briefly discuss the ten articles published in this Special Issue of *Journal of Retailing* dedicated to the theme of *Franchising and Retailing*.

**Characteristics of the Franchising Context**

Behaviorally the franchising industry represents a unique context for investigating inter-organizational precepts and phenomena. Not only does it exemplify an asymmetrical power setting within markets, it also symbolizes a mixed motive context where the franchisors (that usually also function as suppliers to their franchisees) directly compete with their own franchisees through the company-owned and operated units, making it an ideal setting for investigating constructs like power, dependence, conflict and relational bonding. Further the existence of varied governance formats (e.g., company-owned vs. franchised units, single-unit vs. multi-unit franchisees, area developers, master franchisees, passive ownership arrangements) within the franchising industry provides rich opportunities to explore myriad governance formats including nested hierarchical structures and the phenomenon of chains within chains, and a plethora of ensuing agency issues. Franchising scholars have attempted to investigate some of these issues principally using the lenses of (1) resource constraints or resource acquisition theory (cf. Oxenfeldt and Kelly 1968) with its roots in the resource-based view of the firm (Penrose 1959; Wernerfelt 1984) and resource dependency theory (Pfeffer and Salancik 1978), (2) agency theory (cf. Fama and Jensen 1983a,b), (3) transaction cost analysis (cf. Williamson 1985), (4) signaling theory (cf. Beggs 1992; Gallini and Lutz 1992; Gallini and Wright 1990), and (5) property rights theory (cf. Demsetz 1966; Hart and Moore 1990; Hart 1995; Maness 1996).

Franchises also differ in terms of the level of uniformity exacted by the franchisors from their franchisee partners, their receptivity to new product/service suggestions coming from their franchisees, and their practices associated with apportioning of territorial exclusivity, thereby making franchising an excellent setting for investigating a variety of issues including diffusion of innovations, knowledge transfer mechanisms, entrepreneurial orientation, turf issues, inter-organizational interdependencies and autonomy, loosely coupled inter-organizational formats and issues associated with exclusive dealing and territorial encroachment.

Further, the definition of business failure takes on a unique meaning within a franchising context since an outlet’s de facto failure can be disguised by strategies like reacquisition of the dysfunctional unit by the franchisor and its subsequent sale to another party. In fact, this led Holmberg and Morgan (2003) to argue against the need to define franchise failure definitively, but rather to view the process comprehensively through their eight-step franchise failure model. Since franchisees are often compared and contrasted to independent entrepreneurial initiatives in terms of their survivability and rates of success, this contextual complexity makes such comparisons especially challenging. Hence, metaphorically, the franchising context can be fruitfully utilized to investigate the fundamental notions of business success and failure in all sorts of agency relationships.

Finally, we echo Dant (2008) in recognizing that franchising enterprise involves a trichotomy of domain actors comprised of the franchisors, the franchisees and their consumers. And yet the bulk of the franchising literature until recently was focused on franchisor-based studies. More recently there has been an emergent trend of franchisee-based studies. However, there continues to be a virtual absence of examining the franchising phenomenon from the perspective of its customers even though the franchising industry is accused of fostering homogenized tastes (e.g., Luxenberg 1985), thereby curbing local cultural diversity, a charge especially relevant in international contexts where chains like McDonald’s have been accused of playing the role of a Trojan horse for American cultural imperialism. On the other hand we have some preliminary evidence that brands like McDonald’s are fast getting assimilated in traditional societies like China (Grünhagen, Dant, and Zhu forthcoming).

Hence, the net reality is that, to date, we have only anecdotal evidence of how the customers judge the value-added aspects of franchising and the trade-offs involved between guaranteed standardized quality and service and erosion of choices. Hence, from a distal macro perspective, the franchising context can be used to bridge the great divide between B2B and B2C scholarship which will permit us to view business enterprises from a holistic perspective.

Not surprisingly, then, this complex and unique inter-organizational form has generated a very large amount of multi-disciplinary research on franchising topics. Unfortunately, even though some of the foundational initial scholarly work in franchising was crafted within marketing (e.g., Oxenfeldt and Kelly 1968; Ozeanne and Hunt 1971; Hunt 1972, 1973), in mainstream marketing journals, franchising has been used more as a context of empirical sampling (e.g., Anand and Stern 1985; Antia and Frazier 2001; Brown, Dev, and Lee 2000; Dant and Schul 1992; Mishra, Heide, and Cort 1998) and the theoretical issues or the ontology unique to this fascinating B2B inter-organizational structure have often been relegated to other

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\(^3\) As detailed in Dant et al. (forthcoming-a) and Dant, Weaven, and Baker (forthcoming-b), "The notion of IPLC describes an internationalization process wherein a local manufacturer in an advanced country (e.g., USA) commences with selling a new, technologically advanced product in its market, but over time, ends up with becoming a net importer of the product as this product is produced at a lower cost either by competitors in lesser developed countries or, if the innovator has developed into a multinational manufacturer, by its foreign-based production facilities. Since franchising revenues are based on contractually vested royalty remittals, there is no danger of franchise systems becoming victims of IPLC."
Table 1
Franchising Research Across Disciplines (2001–2011 Summer).a

<table>
<thead>
<tr>
<th>Year</th>
<th>Discipline</th>
<th>Marketing</th>
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<td>56.25%</td>
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<td>26.32%</td>
<td>73.68%</td>
<td>7.69%</td>
<td>92.31%</td>
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a The cell entries show raw counts of articles published in different years in each discipline’s top journals (see Appendix A for a listing of these journals and references to these articles).

b Number of journals reviewed.
disciplines. In fact, marketing has been generous to a fault in carelessly and cavalierly abandoning some of the most interesting elements of its ontological repertoire to other disciplines with the result that its foundational domain is shrinking. We seem to have forgotten a fundamental premise of scientific investigation: you don’t research it, you lose it. Franchising is a classic example of this sinister proclivity. We document a summary of this trend in Table 1.

Table 1 was created by reviewing the last ten years (2001 through 2011 Summer) of published research in 50 top journals across the disciplines of marketing, management, entrepreneurship, finance and economics (see Appendix A for details of journals reviewed and the listing of articles summarized in Table 1). A total of 93 articles were discovered, 77 of which (or 82.8%) were published outside of marketing journals. The picture becomes even bleaker when one considers the break-up of these articles into those where franchising was used merely for sampling or data context, and those focused on issues unique to franchising ontology. Across the five domains examined, marketing emerges as the sole discipline where a greater proportion of articles used franchising merely for sampling or data context (56.25% as opposed to 18.18% for the other four areas combined) and only 43.75% of the marketing articles were focused on issues unique to the franchising industry (the analogous number for the other four content areas being 81.82%). We now briefly discuss some well-established ontology unique to the franchising context.

Established Ontology Unique to Franchising

Ownership Redirection Thesis

The ownership redirection thesis within franchising governance research stream, originally proposed by Oxenfeldt and Kelly (1968), argued that successful, resource-flush franchise systems will ultimately tend towards becoming wholly company-owned systems due to opportunistic reacquisition activity by the powerful franchisors. For over forty years this dark prophecy has precipitated an intense research dialog between the supporters and detractors of this thesis (Baker and Dant 2008; Dant and Kaufmann 2003). As previously noted, this phenomenon has been investigated through the lenses of various theoretical frameworks including resource constraints theory, agency theory, transactions cost analysis, signaling theory, and property rights theory. What is needed is a phenomenological approach to investigating this thesis using combinative effects of multiple theoretical frameworks. It could be argued that due to the elaborate web of franchise laws passed in the U.S., most of them enacted after the publication of Oxenfeldt and Kelly’s (1968) seminal article and Oziean and Hunt’s (1971) influential report lending empirical support for this thesis, these erstwhile opportunistic tendencies have been generally curbed within the domestic USA context. However, anecdotal evidence would suggest that in many countries, where franchising laws are either virtually non-existent or in nascent stages of development, the thesis is very much alive. What is needed, then, is a phenomenological approach to investigating this thesis using combinative effects of multiple theoretical frameworks and a clear specification of contextual conditions (including the legal contingencies) that foster or hinder the realization of this dark prophecy.

Stable Plural Forms Thesis

Dubbed the successor to the ownership redirection thesis (Baker and Dant 2008) and nested in the notions of tapered integration (Harrigan 1984), the stable plural forms thesis rejects the premise that franchise systems are headed in the direction of either pure company-owned or pure-franchised systems, and argues that a mixed system (i.e., composed of a strategic mix of company-owned and franchised units, or “plural form”) is the likely ideal choice for efficiency minded systems seeking to reap the ratcheting advantages (Bradach and Eccles 1989) of both pure systems (Dant and Kaufmann 2003). A limited empirical verification of this thesis has been attempted (cf. Dant and Kaufmann 2003; Lafontaine and Kaufmann 1994). However as Baker and Dant (2008) note, the thesis needs to be systematically tested in alternative industries, cultural and country settings; it also needs new theoretical conceptualization and articulation as befitting a new scientific paradigm, to evaluate contingency variables under which the thesis is more or less likely to hold. So, for example, the level of competition in the marketplace, the extent of environmental uncertainty, the relative interdependence in the franchisor–franchisee relationships, and the characteristics of the regulatory environment could all be significant moderator variables to the focal premise of the thesis.

Multi-Unit versus Single-Unit Franchising

Multi-unit franchisees (i.e., franchisees that operate more than one outlet within a franchise system) represent a pervasive and even dominant form of franchise ownership in many sectors (cf. Grünhagen and Mittelstaedt 2005). However, much of the franchising literature has been developed with focus on single unit franchisees, and fundamental questions like the nature of motivational differences across these two categories of agents remain virtually unanswered despite the fact that proponents of multi-unit franchising tout the value of this organizational form in terms of economies of scale associated with monitoring expenses, rapid system growth, system-wide adaptation to competition, minimization of horizontal free-riding, a general reduction of system attrition rates, and the strategic delegation of price or quantity choices to franchisees (cf. Dant et al. forthcoming-a; Dant, Weaven, and Baker forthcoming-b; Kalnins and Lafontaine 2004; Kalnins, Swaminathan, and Mitchell 2006; Shane 2001). As already noted above, the existence of alternative forms of agency structures (i.e., single unit franchisees, multi-unit franchisees, area developers, master franchisees, passive owner franchisees) within the franchising industry provides rich platforms for exploring wide ranging complex agency issues.
The Rule of the Legal Environment

Franchising is a contractually anchored agency arrangement and much of the world lacks the elaborate, regulatory environment within which the franchising enterprise operates in the United States. Baker and Dant (2008) trace the evolution of franchise laws in the United States all the way back to the original anti-trust legislations (i.e., Sherman Act of 1890 and Clayton Act of 1914) which later led to the enactment of the first modern franchising statute in 1971. This was followed by the enactment of Federal Trade Commission (FTC) Franchise Rule 436 which attempted to control a franchisor’s conduct by mandating various disclosures to prospective franchisees to facilitate informed purchase decisions by the latter. This in turn led to the creation of the alternative Uniform Franchise Offering Circular (UFOC) as developed by the North American Securities Administrators Association to make these requisite disclosures. In what can also be seen as a signal of the maturing of jurisprudence surrounding franchising in the US, the courts have transitioned from the once more onerous per se rule to the rule of reason. 4 However, as franchising gains popularity in overseas markets, there is urgent need to enact franchise laws to protect both trade partners. What is sorely needed are introspective (even ethnographic) legal studies that compare and juxtapose the enactment of franchising laws and the flourishing of franchising enterprise.

A Peek at the Crystal Ball

The following brief notes summarize what we see to be results of the sweeping changes occurring within the domain of franchising scholarship, and we extol franchising researchers to delve into these novel arenas of investigation. A total of nine topic areas are discussed which we believe to be grossly under-researched.

The International Imperative

It is matter of manifest observation that future explosive expansion of the franchising enterprise will probably occur outside of the United States since the domestic sector appears to be reaching a saturation point in several sectors. We attempt to document this pattern in Table 2 which compares and contrasts the USA with the four big emerging economies of the BRIC (Brazil, Russia, India and China) nations. We also include analogous numbers for Australia and Germany since some of the special issue articles utilized data from these two economies.

Certain patterns are especially noteworthy. The USA currently emerges as the dominant economy for the franchising enterprise in terms of number of systems, number of outlets, people employed, and the sheer magnitude of the economic impact of franchising on the economy. There are two ways of interpreting these statistics: using the 80–20 principle, one could argue that the US represents the market with the greatest potential (after all, the Australian numbers show that franchising can surpass the 50% mark as franchising’s share of the total retailing sector whereas the current USA number is still 40.9%). An alternative perspective to adopt may be to see major growth potential in countries where franchising is still a small portion of the total retailing sector. From this vantage point, India, China and Brazil represent the greatest potential. The cases of India and China are particularly notable since both these countries only recently liberalized their economies. What is needed, then, is a concerted effort at investigating franchising issues in different countries and cultures from an organic, emic perspective since much of the extant franchising literature has been developed within the North American context.

Ownership and Control Pattern

Although the governance structure of franchise firms refers to ownership and control patterns, most of the studies in franchising since Oxenfeldt and Kelly (1968) have focused on ownership issues. However, especially in non-equity alliances (cf. Brown, Dev, and Zhou 2003), such as franchising networks, the assignment of control or decision rights may deviate from the structure of ownership rights. For instance, the use of direct and master franchising in international business is mainly a question of allocation of decision rights and less of ownership rights between the franchisor and the international franchise partners (cf. Mumdžiev 2011). Therefore, the relationship between ownership and control patterns in franchising needs to be theoretically and empirically investigated.

Franchising the Great Leveler

Franchising has long been touted to play a significant role in providing business opportunities to women and minorities (Ozanne and Hunt 1971; Hunt 1976) and McDonald’s counted more than 25% of its franchisees as women and minorities (Dant, Brush, and Iniesta 1996). The intuition behind such an expectation is that customers patronize a franchise due to its brand reputation in the marketplace and the implicit promises of standardized product or service offering regardless of who the operator of a specific franchised outlet might be. Some sample based studies have yielded inconsistent and inconclusive evidence on the issue of women being especially suited for franchises within certain distinctly “female” sectors like children’s products, clothing, beauty aids, and so forth (Naisbitt 1985; Hoffman and Preble 2003). These patterns need to be empirically documented in a systematic manner using economy wide data not just within the USA but cross-culturally as well. 5

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4 The rule of reason is a doctrine developed by the US Supreme Court which states that only contracts unreasonably restraining trade are subject to actions under the anti-trust laws, and that possession of monopoly power is not illegal per se.

5 Regrettably, within USA, the systematic gathering of this information was last published in the Characteristics of Business Owners (CBO) Report developed by the U.S. Department of Commerce and published in 1997 (U.S. Census Bureau 1997). These data themselves were the result of a survey mailed to a representative sample of small businesses that were part of the 1992 Economic Census (U.S. Census Bureau 1995) where the respondents were asked to indi-
A fundamental premise we generally assume away in business scholarship is the presumption of growth. In fact, much of the focus in franchise research over the past four decades has looked at franchising as an almost “unstoppable” engine of growth in the U.S., and increasingly so, in the global economy. But, in light of the most recent global recession, pressure has increased on many business formats to consider periods of stagnation, downsizing and retrenchment. However, given the unique context of the business model of franchising, the operationalization of this shrinkage takes on a more complicated meaning (cf. Grünhagen, Flight, and Boggs 2011). The relationship between franchisor and franchisee is not one of employer and employee, and hence, traditional forms of “lay-offs” do not apply. Moreover, many franchise contracts entail periods of ten or even 20 years, so that short-term measures of periodic downsizing are not feasible. Recent anecdotal evidence from the automobile dealer market suggests that a period of recession may even be beneficial to franchise networks that have over-expanded in the past. Challenging economic times have forced some franchisees that are simply not able to survive to close their units. The latter units may have continued to struggle for years under existing franchise agreements, as existing contracts make it almost cost-prohibitive for franchisors to terminate the agreements. In other words, economic downturns may have an unintended beneficial “cleansing” effect on franchise systems, despite other quite detrimental consequences (e.g., Langfitt 2008). The franchise industry needs to consider alternative creative ways to respond to market downturns, and franchise researchers have a new opportunity to investigate the “flip-side” of the traditional “franchise = growth” model during economic downturns.

Incorporating Personality Variables

Much of the extant franchising literature has adopted an inter-organizational or B2B framing to understanding significant issues in franchising, with franchisees being portrayed as disembodied automatons involved in the pursuit of organizational goals, and in so doing, truncating theory development by not considering the role of individual dispositional personality traits on franchisee decision-making and franchise relationship quality (Dant et al. forthcoming-b). Not only would this make the theoretical development holistic and realistic, it would also signal a marriage of B2B and B2C perspectives to examining the franchising phenomena.

Social Responsibility and Ethics

A green bandwagon is sweeping all aspects of business enterprise. Emergent evidence would suggest that green initiatives are not just morally and ethically sound but because they demonstrate the social responsibility fervor of the firms engaging in them, they have the salutary effect of raising the corporate reputation of the firms practicing them that may in turn improve the bottom line of these firms. Many of these initiatives (e.g., using energy saving light bulbs, use of recyclable or recycled materials, etc.) have over the past four decades received significant attention in the franchising literature.
materials, giving hotel guests the options of not having their
towels and bed sheets each night, paperless billing) also rep-
resent considerable savings for businesses. Many of the firms
adopting these socially responsible initiatives are franchising
firms and it is an idea whose time has come to be incorporated
into the smorgasbord of franchising ontology.

New Approaches to Gathering Data

Increasingly, to earn a spot in a top journal today, we fore-
cast a trend towards a two pronged research methodology. The
researcher would start with a lab experiment to carry out rigor-
ous psychometric assessment of one’s instruments and internally
validate the nomological network under investigation. And then
s/he would follow up with a field based study to garner evidence
of external validity for the theory under test. Currently, there
is a virtual absence of experiment based franchising research
and almost all of the research seems to be based on surveys or
secondary data.

Usual Clarion Call Issues

Needless to say, one should continue to explore new the-
oretical frameworks for investigating franchising phenomena.
Some examples of theories rarely used in franchising research
are lay theories, equity theory, and tournament theory. Some
of these can even be used to set up powerful strong-inference6
oriented hypothesis tests since they make opposite predictions
(e.g., equity theory and tournament theory) much like agency
theoretic versus resource constraints theory’s explanations of
franchising. Finally, this section would be incomplete without
a call for (1) longitudinal research, (2) cross-cultural research,
and (3) investigating multiple franchising sectors beyond the fast
food industry.

The Contents of this Special Issue

Review Process and the Review Team

A total of 56 manuscripts were submitted to this Special
Issue. Each paper was initially reviewed by all three special issue
co-editors. Fourteen of these were desk rejected based on this
initial screening for considerations like quality, lack of fit, and
so forth. The remaining 42 manuscripts were subjected to the
double-blind review process. Of these another 32 manuscripts
were rejected based on subsequent consensus of opinions from
their review teams and the editors, leaving the 10 manuscripts
that are being featured in this special issue (an approximately
17.8% acceptance to submission ratio).

As one may imagine, this publication would have been
impossible without the generous assistance from a total of 99
scholarly reviewers drawn from 16 different countries. These
distinguished individuals are:

E. Hachemi Aliouche, University of New Hampshire
Ciarán Mac an Bhaird, Dublin City University, Ireland
Brent L. Baker, University of North Dakota
William E. Baker, San Diego State University
Jerome Barthelemy, ESSEC Business School, France
Mark E. Bergen, University of Minnesota
Markus Blat, Technical University of Dortmund, Germany
Michael L. Booram, Eastern Illinois University
James R. Brown, West Virginia University
Lowell Busenitz, University of Oklahoma
Gary J. Castrogiovanni, Florida Atlantic University
James G. Combs, University of Alabama
Larry Compeau, Clarkson University
Russell W. Craig, University of Oklahoma
Evelien P.M. Croonen, University of Groningen, The Netherlands
Lola Dada, Lancaster University, UK
Carolin Decker, Freie University of Berlin, Germany
Abe de Jong, Erasmus University Rotterdam, Netherlands
Tirtha Dhar, University of British Columbia, Canada
Antony Dines, Hall University Business School, UK
Naveen Dontha, Georgia State University
Hughes E. Douglas, Michigan State University
Jay Ebben, University of St. Thomas
Thomas Ehrmann, Westfälische-Wilhelms-Universität Münster, Germany
Heiner Evanschitzky, University of Strathclyde, Scotland
Cecilia M. Falbe, SUNY Albany
Richard L. Flight, Eastern Illinois University
Lorelle Frazer, Griffith University, Australia
Andreas Furst, University of Erlangen, Germany
Jule Gassenheimer, Rollins College
Claire Gaucenete, Institute of Political Sciences Rennes, France
Tansev Gaylani, University of Pittsburgh
Manuel Gonzalez-Diaz, University of Oviedo, Spain
Nina Gorovaia, Frederick University, Cyprus
Debra Grace, Griffith University, Australia
Stephan Grzeskowiak, University of St. Thomas
Gregory T. Gandlach, University of North Florida
Chuan He, University of Colorado
George Hendriks, Erasmus University Rotterdam, Netherlands
Stevan Holmberg, American University
Li-Tzang Hsu, Kansas State University
Bo Huang, HEC Paris, France
K.J.M. (Kano) Huisman, Tilburg University, Netherlands
Shelby D. Hunt, Texas Tech University
Hyo-Jin (Jean) Jeon, University of Oklahoma
Manish Kacker, McMaster University, Canada
Patrick J. Kaufmann, Boston University
Renata Kosova, Cornell University
Karen L. Koza, Western Connecticut State University
Francine Lafontaine, University of Michigan
Stefan Leitmannslebner, University of Vienna, Austria
Benoit F. Leleux, IMD, Lausanne, Switzerland
Yong Li, University of Buffalo
Zhan G. Li, Saint Mary’s College of California
Begoña Lopez-Fernandez, University of Oviedo, Spain
Francesca Lotti, Bank of Italy, Italy
Laura Lucia-Palacios, University of Zaragoza, Spain
Robert Maness, Texas A&M University
Richard G. McFarland, Kansas State University
Brinja Meiseberg, Westfälische-Wilhelms-Universität Münster, Germany
Thomas Mellewigt, Freie University, Germany
Steven C. Michael, University of Illinois at Urbana-Champaign
Robert A. Mittelstaedt, University of Nebraska-Lincoln

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6 Strong inference refers to an inductive-reasoning based scientific inquiry
approach (Platt 1964) that recognizes the limitations of scientific inquiry
grounded in single hypotheses (Chamberlin 1897) and the acknowledges greater
strength of falsification (rather than verification) as a basis for the advancement
of scientific knowledge (Bacon 1620). It is especially useful when one can have
rival hypotheses each grounded in different theories.
Debi Prasad Mishra, State University of New York at Binghamton
Nida Nasr, Bentley University
Lingqiang Ni, University of Central Florida
Rakesh Niraj, Case Western Reserve University
Tahir Nisar, University of Southampton, UK
Sethi W. Norton, Wheaton College
Arne Nygaard, BI Norwegian School of Management, Norway
Robert W. Palmatier, University of Washington at Seattle
Audhesh K. Paswan, University of North Texas
Dean Paxson, University of Manchester, UK
Janice M. Payan, University of Northern Colorado
Rozenn Perrigot, University of Rennes 1, France
F.G.M. (Rik) Pieters, Tilburg University, Netherlands
Thorsten Posselt, University of Leipzig, Germany
Emmanuel Raynaud, University of Paris, France
Amit Saini, University of Nebraska-Lincoln
Enrico Santarelli, University of Bologna, Italy
Stephane Saussier, University of Paris, France
Udo Schlentrich, University of New Hampshire
Kabir C. Sen, Lamar University
Anju Seth, Virginia Tech
Jagdip Singh, Case Western Reserve University
James M. Sinkula, University of Vermont
Ravipreet S. Sohi, University of Nebraska-Lincoln
Mark T. Sprigge, University of St. Thomas
Raji Srinivasan, University of Texas at Austin
John Stanworth, University of Westminster, UK
Robert E. Stassen, University of Arkansas
Luis Vazquez, Universidad de Salamanca, Spain
Kevin Voss, Oklahoma State University
Anna Watson, University of the Arts, London, UK
Scott Weaven, Griffith University, Australia
Barton W. Weitz, University of Florida
Ralph Winter, University of British Columbia, Canada
Joyce A. Young, Indiana State University
Giorgio Zarricone, Colegio Universitario de Estudios, Spain

Summaries of the Ten Articles

As the foregoing summaries amply illustrate, the ten articles featured in this issue cover a very broad swath of topics.

The study by Chabowski, Hult and Mena, titled “The Retailing Literature as a Basis for Franchising Research: Using Intellectual Structure to Advance Theory,” provides a comprehensive meta-analysis of 1,718 articles from 40 different journals and 67,073 citations, revealing the indisputable impact the retailing literature has on studies related to franchising. They develop a typology based on extant as well as emergent franchise-related topics to set the stage for franchising research in the future.

Lawrence and Kaufmann utilize theories of identity in their qualitative study of the role of franchisee associations in franchise systems in their article “Identity in Franchise Systems: The Role of Franchisee Associations.” Franchisee associations are shown to play a critical role in the management of tension between franchisees and franchisor through their distinctive adaptive organizational identity. The study challenges several long-held assumptions about the franchisor–franchisee relationship as well as the franchisor’s stability.

As the title of the contribution by Blut, Backhaus, Heussler, Woisetschläger, Evanschitzky and Ahlert, “What to Expect after the Honeymoon: Testing a Life Cycle Theory of Franchise Relationships,” suggests, the authors investigate the evolution of interorganizational relationships in a franchising context. They identify four distinct stages, based on U-Curve theory as well as cooperation variables, dependence variables, and relationship variables. Their findings indicate that in the stages following the “honeymoon”, opportunistic behavior and switching become likely. Their findings suggest enhanced vigilance and proactive striving for high levels of stability on the part of the franchisor to pre-empt operational realities of the relationship over time.

The article by Mellewigt, Ehrmann and Decker, titled “How Does the Franchisor’s Choice of Control Mechanisms Affect Franchisees’ and Employee-Managers’ Satisfaction?” distinguishes different types of control mechanisms by the franchisor (behavior vs. outcome-control) that lead to varying degrees of satisfaction by franchisees versus employee-managers. Based on data from the largest German franchise system the study shows specifically that franchisors’ choice of outcome control leads to higher satisfaction among franchisees and employee-managers, while behavior control enhances employee-managers’ satisfaction. Further, outcome control is related to greater satisfaction among more experienced franchisees, while behavior control enhances both highly and lowly experienced employee-managers’ satisfaction.

Hendrikse and Jiang, in their contribution “An Incomplete Contracting Model of Dual Distribution in Franchising,” look at dual distribution in franchising from an incomplete contracting perspective. They model cooperative (dual distribution) franchising as an organizational form, in addition to wholly owned, wholly franchised, and dual distribution franchise systems. Their results show that a more competitive franchise system may well be a (dual distribution) cooperative franchise system, particularly when highly specific, non-contractible local assets are most important for the creation of value of the franchise. Managers of franchises may therefore facilitate shifting the balance of power in a franchise in order to give the franchisees confidence that they can recoup the costs of investment. The article’s findings also have significant implications for the ownership redirection thesis (Oxenfeldt and Kelly 1968).

Aliouche and Schlentrich develop a first global index of international franchise expansion that ranks 143 countries according to their attractiveness to US-based franchise firms in their contribution “Towards a Strategic Model of Global Franchise Expansion.” Through a quantitative model that integrates academic research as well as insights from practice, the resulting country ranking represents an innovative tool that may serve as an initial “yardstick” for franchisors in their efforts of targeting foreign countries for expansion.

The article by Grace and Weaven, titled, “An Empirical Analysis of Franchisee Value-In-Use, Investment Risk and Relational Satisfaction,” empirically tests the dimensions of value that influence franchisee perceptions of risk and relationship satisfaction. Among other findings, the study reveals that those quality perceptions, positive feelings and monetary value all significantly reduce one’s assessment of investment risk associated with franchising in general. However, only emotional value and monetary value affect relationship satisfaction associated with their current franchising exchange. These results may assist franchisors in their delivery of greater value to their franchisees.
In the study “Strategic Debt in Vertical Relations: Evidence from Franchising” by de Jong, Jiang and Verwijmeren, the strategic use of debt in franchise organizations is investigated. The study reveals that the franchisor’s leverage is significantly related to the maximum leverage that the franchisor permits the franchisee to have. As franchisors impose limits on franchisees’ debt levels, franchisors can raise more debt and therefore capitalize on resulting tax benefits. This effect is found to be particularly pronounced in chains with greater proportions of franchised outlets.

The contribution “Intellectual Property Securitization and Growth Capital in Retail Franchising” by Nisar examines an innovative approach to raising finances, intellectual property (IP) securitization, which allows companies to account for intangible assets such as intellectual property, royalty and brands and realize their full value. Using a property rights approach, the study shows that IP securitization allows firms to raise funds against such assets. A case study based on Domino’s Pizza provides evidence that this approach may be used more widely to help fund retail franchise growth and expansion.

In the article “Franchising and Firm Financial Performance Among U.S. Restaurants” Madanoglu, Lee and Castrogiovanni examine the risk-adjusted financial performance of franchising versus non-franchising restaurant firms from 1995 to 2008, showing that franchised restaurant firms outperformed their non-franchising counterparts on every dimension investigated. Hence, the study offers convincing evidence why franchising is chosen by so many restaurant chains as the preferred business model.

Concluding Comments

Editing a special issue on the theme of Franchising and Retailing for the *Journal of Retailing* was indeed a rare honor, especially since the last time the Journal of Retailing featured a special issue on the theme of franchising was 43 years ago which was edited by Alfred R. Oxenfeldt. We of course live in a very different world today. The landscape of a nascent industry that Oxenfeldt and Kelly were writing about has given way to a maturing industry that has gone global. We all know the seminal impact his co-authored article titled “Will Successful Franchise Systems Ultimately Become Wholly-Owned Chains?” (published in that same issue) has had in shaping the research trajectory of franchising scholarship. Here is hoping this special issue too will impact franchising research in this brave new twenty-first century.

Appendix A.

Listing of Discipline-Wise Journals Searched and Articles Summarized in Table 1.

**Discipline: Marketing**  
**Journals Searched**

*Journal of Retailing*

*Journal of Marketing*

*Journal of Marketing Research*

*Journal of the Academy of Marketing Science*

*Marketing Science*

Category: Franchising Used Merely for Sampling/Data Context


Category: Focused on Issues Unique to Franchising Ontology


**Discipline: Management**

**Journals Searched**

Academy of Management Journal
Strategic Management Journal
Journal of Management
Organization Science
Research Policy

**Category: Franchising Used Merely for Sampling/Data Context**


**Category: Focused on Issues Unique to Franchising Ontology**


**Discipline: Entrepreneurship**

**Journals Searched**

Journal of Business Venturing
Entrepreneurship Theory and Practice
Journal of Small Business Management

**Category: Franchising Used Merely for Sampling/Data Context**


Category: Focused on Issues Unique to Franchising Ontology


Discipline: Finance
Journals Searched

Review of Finance
Journal of Corporate Finance

Category: Franchising Used Merely for Sampling/Data Context

None.

Category: Focused on Issues Unique to Franchising Ontology


Discipline: Economics
Journals Searched

American Economic Journal: Microeconomics
Journal of Business and Economics Studies
Journal of Law and Economics
Journal of Law, Economics, & Organization
Journal of Economic Behavior
European Economic Review
Journal of Economic Behavior & Organization
Journal of Economic Literature
Pacific Economic Review
RAND Journal of Economics
Economics Letters
Journal of Economics & Business

Category: Franchising Used Merely for Sampling/Data Context


**Category: Focused on Issues Unique to Franchising Ontology**


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**Appendix B.**

**Sources for Comparative Data Presented in Table 2.**

**USA**

**Number of systems**


**Number of outlets**

PricewaterhouseCoopers (2009), 2010 Franchise Business Economic Outlook,

**People employed**


**Economic impact on the economy**


**Percent of retailing**


**CHINA**

**Number of systems and number of outlets**


**People employed**

CNTV CCTV’s News Channel, Official Voice of China

**Economic impact on the economy**


**Percent of retailing**


**INDIA**

**Number of systems and number of outlets**

Appendix B (Continued).

**People employed**

**Economic impact on the economy**

**Percent of retailing**

**BRAZIL**

**Number of systems and number of outlets**

**People employed**

**Economic impact on the economy**

**Percent of retailing**
A Postcard from the Americas, Brazil: A Nation of Discerning Shoppers

**RUSSIA**

**Number of systems and number of outlets**
Updated version of Franchise and Distribution @ Gowlings February 9 2011, Volume 5, Number 1

**People employed**
Updated version of Franchise and Distribution @ Gowlings February 9 2011, Volume 5, Number 1

**Economic impact on the economy**
Reliable data not available.

**Percent of retailing**
Reliable data not available.

**AUSTRALIA**

**Number of systems and number of outlets**

**People employed**

**Economic impact on the economy**

**Percent of retailing**
The Australian Centre for Retail Studies (2010), The 2010 Australian Retail Snapshot: The ACRS Secondary Research Report, Caulfield East: Monash University, Australia.

**GERMANY**

**Number of systems and number of outlets**

**People employed**

**Economic impact on the economy**

**Percent of retailing**
References


