

A Model of Influential Factors in Franchise Operations

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ABSTRACT

The objective of this theoretical essay was to construct a model of those factors that might at any time have an influence on the operation of a franchise unit. In order to do so, we studied and assessed articles and books between 2014 and 2019 that contain aspects related to franchise operations; they were compiled in a way that had not hitherto been addressed by seminal authors. We analyzed 191 works, of which 71 form part of this study. Preparation of the model is relevant for stimulating conceptual discussion in this field of studies since it has not yet been clearly defined in academic literature. From choosing future franchisees to the daily operation of the unit, there are many factors that can influence the performance, survival, profitability and even the franchisee's satisfaction with their unit. The model, therefore, serves as the basis for the management actions of franchise networks in monitoring the activities of their franchise units.

KEY-WORDS

franchising, franchise operational model, monitoring, business operation

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1. INTRODUCTION

Franchising is a system that involves the most diverse segments of activity. Examples of franchising can be easily found in shopping malls and centers of commerce, where there are stores specializing in a wide variety of activity areas (Mendelsohn, 1994; Muñoz & Quintella, 2002). The beginning of the 21st century showed that franchising is a viable selling option in various segments. Businesses that are as yet not involved with franchising can appropriate this system relatively easily. Another point worth highlighting is its economic relevance. Franchising in developed countries accounts for significant numbers of both companies and jobs that are generated. This particular business model accounts for one third of all retail sales in the United States (Ireland, Hoskisson, & Hitt, 2013) and almost eight million jobs (Statista, 2019). Its influence can also be felt in Brazil. Some 1.5 million people are currently working directly in the sector, according to data from the Brazilian Franchising Association [ABF] (2019).

From an academic point of view, this is a field that is evolving significantly. In the Spell database, which contains the most highly regarded journals in Brazil in the area of administration, 92 Brazilian articles were found dealing with this particular business model in the 1993-2019 period (Spell, 2019), while internationally, just in areas related to management, such as business, economics and operations, 828 scientific articles were identified on the Web of Science database in the same period (Web of Science, 2019). Franchising in Brazil is also addressed on a fairly frequent basis in textbooks or books used for consultancy purposes (Mendelsohn, 1994; Cherto & Rizzo, 1995; Dahab, 1996; Ribeiro & Silva, 2004; Cherto, Campora, Garcia, Ribeiro, Marchi, Imperatore, & Júnior, 2015; Ribeiro, Marchi, Imperatore, & Galhardo, 2013, Roque, 2019).

Franchising's problems are the result of the system's hybrid dichotomy; agents in franchising do not have all the duties and responsibilities of a partner, and neither do they have the boss/employee relationship that is common to managers. Franchisees, however, are subject to rules dictated by the franchisor that other independent entrepreneurs are not. There are, therefore, a number of problems that are specific to this type of relationship. Examples include, among other things, breach of, and length of (Azevedo & Silva, 2001; Cohen & Silva, 2000; Toledo & Proença, 2005; Lara & Azevedo, 2006; Vance, Fávero, & Luppe, 2008; Guedes & Trigo, 2009). Because of the ability franchisees have to anticipate problems and speed up solutions, however, Kalargyrou, Aliouche and Schlenrich (2018) claim that most of them feel satisfied with their business. The authors point out that this is related to the help that entrepreneurs receive when starting out in business compared to those who run independent businesses. The opportunity to foresee a series of problems that have been faced by other franchisees in the network, by exchanging information and sharing experiences is also relevant.

This does not guarantee that the "honeymoon" between the agents involved will not end at some point and that this situation will not change. Franchisees may change the way they act and think in relation to the franchisor or their unit at any time, and they often act in a way that is harmful to the network. This happens because their business may be impacted in a different way from other units in the network, and even other businesses that are not part of the system. What landscape, therefore, do franchisees encounter in the day-to-day management of their unit? Toledo and Proença (2005) point out why units close down their activities; but did these franchisees not know how the franchise would affect their way of working and that many of the things that are said are not categorical obligations of the franchisors? According to Kalargyrou, Aliouche and Schlenrich (2018), franchisees have some degree of independence and sometimes benefit from local knowledge, but the franchisor's demands for standardization require that franchisees make specific investments in the system.

The objective of this theoretical essay was to build a model of factors that could, at any time, have an influence on the operation of the franchise unit. To do so the moment before the operation begins, as well as during the operation, were studied and factors were gathered to create the model in a way that has not yet been addressed by seminal authors on franchising, especially by academics (Blair & Lafontaine, 2005; Brickley & Dark, 1987 ; Caves & Murphy II, 1976; Combs & Ketchen, 2003; Combs, Michael, & Castrogiovanni, 2004; Elango & Fried, 1997; Lafontaine, 1992; Lafontaine & Shaw, 2005; Lal, 1990; Norton, 2016; Rubin, 1978). The model may also serve as a conceptual device for managing the actions of franchise networks in monitoring the activities of their franchise units.

2. THEORETICAL REFERENCE

2.1. THE TWO MOMENTS OF THE FRANCHISEE IN THE NETWORK

Franchisees experience two distinct moments: the first which lasts from when they choose the franchise system until contracts are signed with the franchisor; and the other from when the business starts operating. Before operating as a franchisee, the candidate can research the system and the way it functions, but they do not as yet have any experience of being a part of the system. Studies indicate several reasons why potential franchisees may look for a particular franchise system that can provide them with the business experience they lack or other resources (Hing, 1995; Harmon & Griffiths, 2008). Over and above the candidate's aspirations, their profile must be compatible with the franchisor's prerequisites (Edens, Self, & Grider Jr., 1976). The following section, "Choosing the Franchise System", explores this *ex-ante* moment of the operation. The candidate becomes a franchisee after the contract has been signed. In this phase they experience a new cycle, which is influenced by aspects that exert pressure on the daily operation of the business. These aspects are here divided into four factors: Individual, Network, Environmental and Financial. Each of these *ex-post* factors following the start of the operation are explored in the following topics.

2.2. CHOOSING THE FRANCHISING SYSTEM (FRANCHISEES)

In defining resources in the franchise system the approach of franchisees is dichotomous. First of all, they are looking for resources they do not have, that is, the know-how that the franchisor has, plus the brand required for consolidating a business. The second point, however, is that they themselves have resources that franchisors want, which may be financial and/or managerial, and that would be essential to the business. Despite being similar to a manager, it must not be forgotten that a franchisee is a businessperson who is going to put financial resources and their own manpower into managing the business. Compiling the reasons given in the literature for looking for a franchise, the four that are cited in all the studies we analyzed are: a consolidated brand; operational and administrative support; the cost of raising capital, and; the search for resources, which small companies find it difficult to manage (Combs & Ketchen, 1999; Harmon & Griffiths, 2008; Perryman & Combs, 2012 Cherto et al., 2006; Ribeiro et al., 2013, Roque, 2019) . When the candidate franchisee decides to purchase, they are seeking to obtain advantages by way of a business that has already been successfully tested, a brand that has already been constructed, and the assistance they can expect from the franchising company. Without a counterpart from the system, this entrepreneur would probably risk going into business on their own, or would buy an already functioning company (Toledo & Proença, 2005).

Supplying only the profit aspect is not enough to win over franchisees; those who buy a franchise are not just looking for a financial result. Profit is just a part of what future franchisees want, according to Hing (2005); they are also looking for backing and initial and continuous support. Franchising companies, on the other hand, seek personal commitment to the business, entrepreneurial qualities, managerial skills and financial capacity from their candidates (Sousa, Junqueira, & Las Casas, 2014). The question of who may be a good franchisee is a constant challenge for franchisors (Kaufmann & Stanworth, 1995; Weaven, Baker, Edwards, Frazer, & Grace, 2018; López-Fernández & López-Bayón, 2018).

For Hing (1995), franchise candidates seek backing and ongoing support, knowing that while they are paying for rights, they also have duties. Some candidates, however, are essentially ill-intentioned (Klein & Saft, 1985), and although they often have all the attributes that franchisors want, they are looking for a franchise system with the sole intention of using the brand to attract consumers; they are not engaged with the business. They are free-riders who manage the unit without following the franchisor's demands (Brickley & Dark, 1987; Brickley, 1999; Kidwell, Nygaard, & Silkoset, 2007; Klein & Saft, 1985; Rigoni, 2015; López-Bayón & López-Fernández 2016).

2.3. INDIVIDUAL FACTORS

Franchisees can be thought of as intra-entrepreneurs within the brands to which they are linked. This is because they develop business within an existing company (Pinchot, 1985), so they are expected to have the characteristics and individual resources needed to perform these functions well. Franchisors seek franchisees to supply the former's lack of resources, as per the Resource Scarcity Theory (Oxenfeldt and Kelly, 1969). These resources are varied and not just financial, and they increase the speed of growth of the network, which can lead to dominance in the market.

It is a well-known research fact that franchisors do not rely on internal information coming from their networks, but rather on a consensus as to what a model franchisee is, so they assume the risk of choosing the same type of franchisee for different types of business (Clarkin & Swavelly, 2006; Sousa *et al.*, 2014). Franchising companies, therefore, assume a limited number of heuristic principles linked to the market in order to perform a complex and important task, which is choosing their partners in the network.

Since the first works on the subject of choosing franchisees were published, financial skill has been one of the dominant factors. Studies show that the financial capacity of those aspiring to be franchisees is a strong factor in companies when it comes to choosing those who are going to enter the network. Another finding is that this does not mean that these candidates perform satisfactorily; personal factors and those linked to superior performance are more important. According to different authors, these factors, which have been identified in a series of studies, are essential for the franchisee to be able to manage and control their franchise unit (Edens *et al.*, 1976; Forward & Fulop, 1993; Knight, 1986; Tatham & Douglas, 1972; Ramírez-Hurtado, Rondán-Cataluña, Guerrero-Casas, & Berbel-Pineda 2011).

Choosing franchisees in a systematic and correct manner can lead to excellent results, while bad choices that employ unclear criteria can accelerate the speed with which the candidate is chosen, but lead to future problems for the franchising company. The ideal thing when building up and maintaining a high quality network is to look for a selection method that can identify potential franchisees who will perform in the way that is required of them during the time they are in the network (Jambulingam & Nevin, 1999). One of the first works to discuss this subject was

by Tatham and Douglas (1972). The authors sought relevant aspects that the franchisor should analyze when choosing a franchisee, and listed the selection criteria in order of importance. Edens et al. (1976) sought to determine personality characteristics as being the most important aspects. The study by Forward and Fulop (1993) investigated the characteristics necessary for aspiring franchisees in order for them to gain the confidence of their possible future franchisors. In line with the studies by Edens *et al.* (1976), Kasselmann, Beer and Vermeulen (2002) also pointed out that franchisors who systematize their choice based on performance focus primarily on personality attributes, and that the aim of this initiative is the success of future franchisees based on biases that, in their opinion, have an influence on success when operating.

The studies by Clarkin and Swavely (2006) and Sousa et al. (2014) used data from companies that provide information about their ideal franchisee. These studies indicate the profile of the desired franchisee as disclosed by franchisors in the candidate prospecting phase, and it is noticeable that there are some points of convergence in them; having a good relationship, for example, is considered important for joining the network. Based on this research it can be assumed that since the franchise contract is results-oriented, less collaborative individuals who have their own view of the business do not adapt to the franchisor's systems of governance.

Analyzing the individual factors which are most cited in the works mentioned in this topic, we arrive at the following factors: an ability to manage, relationship skills, an entrepreneurial profile, perseverance, and loyalty to the franchisor. Franchisors, therefore, need to structure their systems in order to select new franchisees who display these attributes. Undesirable characteristics of new franchisees may have an impact on the franchisor-franchisee relationship, leading to future problems for the franchisor and even possibly for the network.

2.4. NETWORK FACTORS

The franchisees/franchisor relationship in franchises is extremely important, and both academic studies and laws mention the obligations of the franchisor in this.

The Brazilian law governing the franchise agreement, Law No. 13,966, December 26, 2019, states that the franchisor's obligations are:

- a) support;
- b) supervision of the network;
- c) guidance and other types of service provided to the franchisee;
- d) the incorporation of innovation;
- e) providing training for the franchisee's employees;
- f) franchise manuals;
- g) help with analyzing and choosing the points of sale where the franchise will be installed;
- h) layout and architectural standards for the franchisee's installations.

As the law does not specify what support means, it is understood here that it involves aspects related to the functioning of the unit in terms related to franchising and not to environmental and financial aspects, which are dealt with in other sections of this study.

Establishing and maintaining a good relationship with franchisees is one of the main challenges that franchisors face. The life cycle of a franchise begins with the franchisor and the franchisee's "honeymoon" period, but the relationship worsens in certain situations (Blut, Backhaus, Heussler, Woisetschlager, Evanschitzky & Ahlert, 2011); in other words, delight gives way to routine, an evolution that needs to be well managed by the parties. Toledo and Proença (2005) investigated

the factors that had an influence on franchise unit contracts being terminated when they studied former franchisees of different brands and listed the factors that in some way had an influence on the end of their partnerships. They were: the selection process, selecting the point of sale, communication, manuals, keeping promises, accompanying the opening, setting up the store, supervising and monitoring the units, new product development, marketing (initial and centralized advertising), centralized procurement, and training (initial, and for technical and managerial assistance). They also point out that some of these aspects were never supplied by the brands, even though they were provided for in the contract. Lack of support for the franchisee is also pointed out by Machado and Espinha (2010) as one of the main reasons for the failure of Brazilian franchises, because franchisees had had no previous managerial skills or experience and the lack of support made the situation worse. Both Roque (2019) and Guerra (2012) state that, for a unit to be successful, the contract must be faithfully honored, with network factors being the essence of such contracts. In addition to the contract, there are also informal promises, that is, promises that are made to franchisees and that are not always found in the contract, the idea being that these franchisees might enjoy some future residual gains (Guerra, 2012), such as choosing another region or having a preference with regard to a second brand of the franchisor.

Terminating the contract is the last resort of a franchise agreement, but as seen in Blut et al. (2011), it is possible in those cases where continuing the partnership is no longer a viable option. When the franchisor's obligations of selection, training, monitoring, relationship, manuals, etc. are no longer in line with the standard franchisees expect from the contract then the latter become discouraged (Costa, Mueller, & Mondo, 2011; Lopes et al., 2013; Machado & Espinha, 2010; Rau, 1992; Sauerbronn, Sauerbronn, & Hasenclever, 2011; Souza & Lourenzani, 2011, Roque, 2019). According to Toledo and Proença (2005), network factors have an influence on the termination of contracts of some units. Identifying the fact that the expected standard is not being met by the franchisor may lead to termination of the contract. It is important to mention that the articles we studied mention that breach of trust between the parties is a strong indication that the contract will not be renewed.

In listing the network factors based on their relevance in the studies mentioned here and also on those set out in the Franchise Law, we arrived at the following: selection process, selection of the point of sale, setting up the store, accompanying the opening, marketing, purchasing, supervision and monitoring, innovation and new products, training, communication, manuals and keeping promises.

2.5. ENVIRONMENTAL FACTORS

Network strategy and changes in the environment affect and influence the operation (Brandt, 2007). Where the unit is located can have an impact on the success of the business. The location of the point of sale is one of the factors that can lead to a competitive advantage being enjoyed by the units; the choice of location generally involves criteria that are defined by the franchisor, which indicates or suggests them. When a franchise candidate is looking for a brand, the location of the unit can be agreed in two ways. In the first way, the franchisee applies to operate a unit close to where they live or work: the franchisee's local knowledge, therefore, becomes their personal resource. The second way is to apply for a vacancy in a place in which the franchisor believes there is a market for its product or service. Both ways result in changing environments, which can be impacted by several factors during the operation (Horton, 1968; Reimers & Clulow, 2004; Siqueira, Telles, Rocca, & Gaspar, 2015).

Environmental condition refers to a place that supports the growth of organizations or their maintenance (Ward, Duray, Leong, & Sum, 1995). This is the assumption of the Environmental Theory. According to these authors, the external factors of the environment that influence the business of the franchise unit are: **operating costs**, which are related to the increase in the cost of inputs, such as labor, raw materials, transportation, telecommunications, utilities, rent, health care, etc; **availability of labor**, which refers to concerns about the potential shortage of technicians, clerks, and skilled and production workers; and **market hostility**, which are changes in the market, such as increased competition and decreased demand locally. There are also the more demanding quality standards that are imposed by the market: **dynamism**, which is the speed at which products and services become obsolete; local innovation; and changes in customer preferences.

The Environmental Theory explains some of the dimensions that can be complemented by the Institutional Theory, which addresses the relationship with institutions, such as, for example, regulatory processes. In the Institutional Theory, the environment forces organizations to conform to collective norms (Oliver, 1988). According to the work of Grewal and Dharwadkar (2002), the collective norms which might influence business are: **regulation processes**: regulatory interactions with institutions that exist to ensure the stability, order and continuity of society and social well-being; **validation processes**: processes that represent interaction with normative institutions and give rise to socially acceptable behavior patterns; **habituation processes**: while invisible, they are the basis of processes that give rise to cognition, that is, the standard has been understood and accepted as a habit by the environment. The junction between these theories indicates the challenges the unit faces in its life cycle, and that have a greater or lesser influence on the results of the business and its difficulty to operate. Environmental factors can affect businesses of various kinds, not just franchises (Coda, Krakauer & Berne, 2018; Paulino, 2010). Starting from this premise, the external environment in which the unit is located may contain threats that are impossible for either party (franchisee and franchisor) to control, such as strong competition (Conti, Murdocco, Ferreira Jr, & Santos, 2014; Salar & Salar, 2014; Souza & Teixeira, 2013; Cherto *et al.*, 2006, Ribero *et al.* 2015).

2.6. FINANCIAL FACTORS

Businesses need to generate revenue which will enable them to survive during their life cycle. Franchise units are the outcome, above all, of a business deal signed by a franchisor and franchisee, the intention being to generate results for both parties. Their profit is the amount remaining after all the cash inflows and outflows. Inflows come from payments received for selling products or services, while outflows come from the company's various obligations, including taxes, employee costs, rents, and payments due to the franchisor, such as the franchise fee, royalties, and marketing charges (Ribeiro *et al.*, 2015).

Franchisees join the system because they are looking for a consolidated brand, support, resources, and the ability to raise capital at a lower cost. Their choice is based on the belief that in the future the unit will provide them with a fast and satisfactory financial return, or at least a return that is compatible with that of their peers outside the franchise system (Cohen & Silva, 2000).

During the contract period, the franchisor is remunerated by the charges it levies. The initial franchise fee, for example, is a specific investment by the franchisee at the beginning of the contract to acquire the right to start operating. This fee generally includes initial training, help with finding the location, and design of the establishments (Rodríguez, Caballer, & Guadalajara, 2011). During regular operation, there are other obligations that can vary from franchisor to

franchisor, but which generally include a marketing/advertising fee and royalties. The return on this investment is attributed to the franchisee and is directly linked to their effort and engagement, both in operating the business and in promoting the brand (Sen, 1993). The fees charged may, at some point, be seen by the franchisee as a threat to their results and taken as opportunism by the franchisor. The franchisee may feel cheated and exploited if they do not see a return on this transaction. The franchisor cannot afford to make a mistake when establishing the price level of these fees and charges, as this factor can make it unfeasible for the network to function (Toledo & Proença, 2005). Also, when the franchisor uses the amount of the fee as a means of attracting franchisees, charging less than the market may attract candidates who are only interested in learning how to operate a business and then abandon the franchise (Perryman & Combs, 2012).

According to Frazer (2001), the fees charged by franchises have a negative effect on franchisees at some point in the life cycle of the franchise. Moreover, once the franchisee has acquired the knowledge needed for managing the business, it becomes more difficult for the franchisor to justify some of the ongoing charges (Blut *et al.*, 2011).

In addition to the franchise costs, there are also fixed and variable costs for operating the business (Lima, Luna, & Sousa, 2012). Although such costs affect business, regardless of whether it is a franchise or not, what we present here are some of the peculiarities of the franchise system. For example, in companies that are not associated with any brand, the owner can choose where to operate in accordance with their own criteria. In the franchise system, on the other hand, it is the franchisor who accepts or rejects a particular location after taking into account various strategic factors. This difference may have a different impact on the operating cost of the business, and consequently, on its profitability.

With regard to the question of the profitability of the business, some studies claim that when franchisees have other sources of income they may divide their resources, time, and money with these other sources. These individuals are generally classified as under-investors (Botti, Briec, & Cliquet, 2009; Brickley, 1999; Chiou & Droge, 2015; Falbe & Welsh, 1998; Kacker, Dant, Emerson, & Coughlan, 2015; Michael, 2000). Based on this principle, a franchisee who owns other businesses may relegate the franchise unit into the background at the expense of more profitable investments.

3. METHODOLOGICAL ASPECTS

In order to build a theoretical essay it is assumed that the topic proposed needs to be gone into in depth. According to Severino (2017), scientific work can take the form of an essay conceived as a logical and reflective exposé, in which the authors introduce their own judgments and personal interpretations. The author also points out that in this type of construction the authors have greater freedom to defend a certain position.

3.1. CONSTRUCTION OF THE MODEL OF FACTORS THAT HAVE AN INFLUENCE ON THE OPERATION

The aim of constructing the model of factors that have an influence on the operation is to present an overview of the franchise system operation and to gather together the possible uncertainties that may affect the business. The process includes those aspects that affected the franchise candidate's view *before* they entered the system, when the reasons they chose the system are analyzed, and those factors that had an impact *after* the franchisee signed the contract with the franchisor, such as individual factors, financial problems, problems that the external

environment can bring to the franchise and what the franchisee expects from the network when the business is fully functioning.

The literature review made it possible to expand our knowledge of phenomena related to the challenges that franchisees face during their operation, which resulted in a model of factors. When the model was being developed, it was understood that there are theories that explain the challenges that franchisees face. There is a gap that does not clearly show the factors that have an influence on the operation as a whole. Although there are studies that point to possible causes of disruption, they are fragmented and not a framework for the subject. To find these articles, the Web of Science, Ebsco and Spell databases were chosen, the first two being worldwide databases and the third a database that carries Brazilian articles, which in many cases reflect the reality found in Brazilian networks. We catalogued and evaluated 191 articles between 2014 and 2019. These works came from the above-mentioned databases and at some time addressed the challenges and wishes that franchisees encountered in operating their units. Of the articles we assessed, 71 form part of this work, because they throw light on the theme in some way or another. We also read and catalogued 18 Brazilian books on the subject of franchising that have been published in the last 25 years. Eight of these books made contributions that were of interest to us as authors of this work.

The objective was to discuss the theories from which a model emerged of the factors that could influence the operation of franchise units. Based on other studies and on the prior knowledge of the researchers, the premises helped and enabled an inference to be drawn; in other words, representations were reconstructed from a knowledge base in order to allow the work to go beyond the material that was studied, thereby producing knowledge (Bauer, 2002 ; Richardson, 1999).

For Minayo (2011) the premises of literature must: be able to shed light on real issues; be clear and intelligible, and; accurately present abstract relationships between the elements, facts and processes they seek to explain or interpret.

The premises studied in the literature review, which are based on the theory of franchises and business, served for preparing the proposed model. Its origin comes from precepts found both in scientific literature and in management literature on franchising. In the “Model of factors that are influential in franchising operations” section, an influence diagram is presented that covers the aspects studied. This diagram is a construction that abstracts those factors that can at any time influence the franchise operation, and that are variables that may or may not be controlled by the franchisors.

4. A MODEL OF INFLUENTIAL FACTORS IN FRANCHISE OPERATIONS

After reviewing the literature, an operation model was developed for studying the factors that are influential in franchise operations, based on franchise and business theories. The model was developed following the precepts of influence diagrams, which identify the uncertainties associated with the research problem in order to represent the system. The influential factors in the operation of the franchise unit are part of a system, in other words, a set of interrelated elements that have a common objective (Howard & Matheson, 2005). Figure 1 shows the influence diagram with the associated factors divided into temporal moments. In line with the prescriptive current (Hammond, Keeney & Raiffa, 1999; McNamee & Celona, 2008), the objective is to clarify and, if possible, simplify, albeit in superficial way, the uncertainties and complexities involved in this

type of problem, thereby offering a support tool for those who take this type of decision. Oval figures represent uncertainties, and double-line octagons are indicators for measuring the decision.

Franchisees experience two distinct moments in relation to their temporal conditions, as can be seen in Figure 1: the first when choosing the franchise system, *ex-ante* (M1), and the second, from the moment they started the unit's operations, *ex-post* (M2).

Ex-ante:

Choosing the franchise system (E): Comprising four reasons: **the search for resources (E₁)**, understanding that perhaps the franchisor can offer resources that the candidate lacks for operating the business; **a consolidated brand (E₂)**, the franchise candidate seeks to operate with the backing of a well-known brand, which is possibly better than being backed by a new brand; **the cost of raising capital (E₃)**, considering that access to financing is facilitated and; **operational and administrative support (E₄)**, believing that the franchisor can offer monitoring and support, something that does not exist when setting up a business one's own.

Ex-post:

Environmental Factors (A): Comprising seven variables: **local costs (A₁)**, to what extent the cost of the location where the unit is established influences the business; **labor (A₂)**, a lack of labor can have a negative impact on the operation, and even on the operating costs; **market hostility (A₃)**, how competitive the competition in the unit's market is; **dynamism (A₄)**, local consumers are, or are not used to innovation and novel products, and may, or may not abandon already consolidated companies; **validation processes (A₅)**, how consumers accept the business; **regulation processes (A₆)**, interactions with government institutions; **habituation processes (A₇)**, how consumers learn about and get used to the business.

Individual Factors (I): Comprising five characteristics: **the ability to manage (I₁)**, the franchisee feels secure in managing the business; **relationship capability (I₂)**, the franchisee's ability to relate with others in different situations, whether with suppliers, employees or with the franchisor itself; **entrepreneurial (I₃)**, being proactive in solving the unit's problems and proposing solutions to the franchisor; **perseverance (I₄)**, understanding that a business needs time to mature in order to achieve success; **loyalty to the franchisor (I₅)**, the franchisee trusts and believes in the franchisor.

Network Factors (R): Comprising twelve obligations of the franchisor: **selection process (R₁)**, choosing the other franchisees in the network well; **selecting the point of sale (R₂)**, the franchisor seeks an excellent location for the units; **setting up the store (R₃)**, the franchisor monitors the units being assembled, thus ensuring that the chain is homogeneous; **accompanying the opening (R₄)**, the franchisor accompanies activities right from the beginning, curbing any vices and helping with formatting; **marketing (R₅)**, the franchisor supplies the marketing needs, both in the macro and micro environments; **purchases (R₆)**, the franchisee supervises any purchases that might have an impact on the operation; **supervision and monitoring (R₇)**, the units receive regular visits, so that both the physical installations and the employees involved are supervised; the unit is monitored, the intention being to avoid any possible problems with loss-making units, which can damage the network; **innovation and new products (R₈)**, the speed with which the franchisor launches new products/services in the market in which it operates, knowing that each market has different demands; **training (R₉)**, the franchisor offers continuous training to franchisees and unit employees to maintain standards throughout the network; **communication (R₁₀)**, the franchisor keeps channels open and has good communication with the entire network, thus avoiding problems due to a lack of dialogue and monitoring; **manuals (R₁₁)**, manuals indicate the procedures necessary for the daily operation of the franchise; **keeping promises (R₁₂)**, this item refers to the promises made to the franchisee when the unit was being purchased.

Financial Factors (F): like environmental factors, they also comprise four variables: **fixed costs (F1)**, incidents inside or outside the franchise system, but with different nuances due to standardization; **variable costs (F2)**, as with fixed costs there may be changes in expenses, depending on the franchise that the franchisee operates; **profitability (F3)**, the franchise in question offers an expected return on investment; **franchisor's fees (F4)**, the fees charged by the franchisor for maintaining the partnership, brand and royalties and their impact on the business.

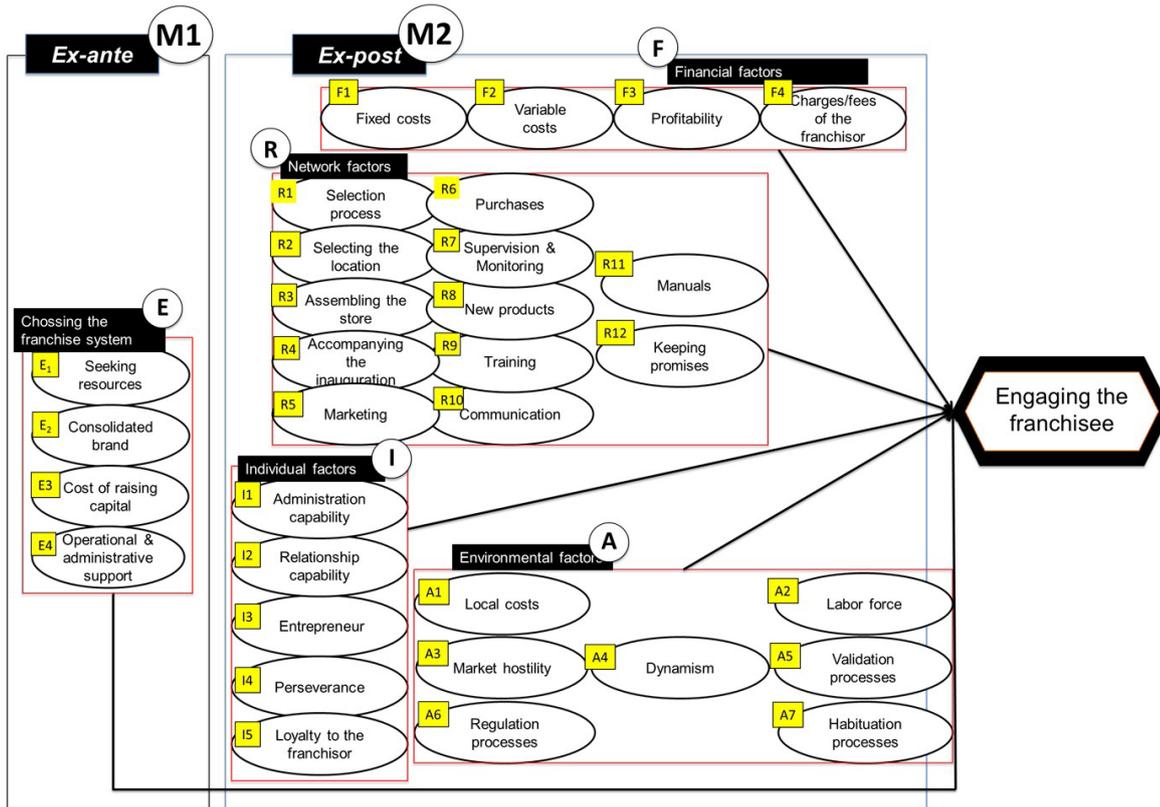


Figure 1. A model of influential factors in franchise operations
Source: prepared by the authors

5. CONCLUSION

This article sought to construct an abstraction of the environment found in franchise units. From the choices made by its future franchisees to the daily operation of the unit, there are many factors that can have an influence on the performance, survival, profitability, and even the franchisee's satisfaction with their unit. Preparing a model of influential factors in franchise operations, therefore, leads to a conceptual discussion that is relevant in this field of studies because such operations are still not well defined in academic literature.

The creation of a theory of management in franchises, which distances itself from traditional economics, is an exploration opportunity that is different from the traditional ones in this field of study, thus allowing other researchers to add to, or even critique this work in an effort to advance scholarship in the topic.

The model shows that the factors that can have an influence on franchise operations emanate from the two parties involved in it. Aspects related to the franchisor are those the network controls,

while those relating to the franchisee refer to the individual characteristics of the franchisees, generally prior to them entering the system.

The factors that have an influence on franchise operations, therefore, have two dimensions. On the franchisor's side these include communication problems, and a lack of supervision and monitoring, while on the franchisee's side they include little capacity to adapt, a lack of knowledge of the system and low levels of proactivity.

Some of the factors found, therefore, are more difficult than others for franchisors to manage, but they can be anticipated by the prior selection of franchisees and even by the latter's own analysis of the operation, so that future agency problems do not arise. Due to a lack of criteria or systematization, or because of inexperience, the franchisor can, at any time, choose franchisee candidates who may not become engaged with the business. The cost of this lack of *ex-ante* analysis (choice) or even a lack of *ex-post* monitoring (regular operation) can ultimately lead to the unit being closed down.

The proposal of this model is limited to the authors' own findings based on existing literature and, therefore, suffers from personal bias. It is known, however, that other models are possible depending on the interests of the research and the central problems of the studies of other researchers.

As a recommendation in terms of management, the model shows that results differ between units: while a certain percentage that is charged as a one-off fee is plausible for one unit, for another it may be beyond what is possible for them to pay. Franchises usually charge all units the same fees, and in certain cases this may lead to asymmetry within the network. Less profitable units, which can be impacted by a series of factors, such as higher rents, a poor supply of labor, or labor costs that are higher because of the region, may feel there is a disparity in the charges. It would then be a case of analyzing the charge based on value added or net result. Only then is it possible to differentiate fees without causing the perception of an injustice being committed in the network.

For future studies it is suggested that factors should be evaluated by way of empirical studies to indicate which have a greater or lesser influence on the operation of franchise units. Existing literature on franchising covers part of the problem, but does so generically and based mainly on the viewpoint of the franchisor, with little account being taken of the views of the franchisee.

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AUTHOR'S CONTRIBUTION

HSA – Prepared the research concept, the formal analysis, the investigation, the methodology, managed the project phases, wrote the original draft and revised the final version.

MRL – Took part in the investigation, the methodology, and data validation, and revised the final version.

PTSN – Took part in the conceptualization, the formal analysis and the methodology and wrote the original draft.

CONFLICTS OF INTEREST

There are no conflicts of interest.