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A new conceptual model for international franchising

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ABSTRACT

International franchising has been widely studied from the franchisor perspective, as it relates to why and how firms decide to expand by viewing it as a uni-directional perspective. With the increased volume of international franchising businesses, theory development that considers multidimensional elements such as distance, trust and its effects on franchise relationship and the system's performance is needed. The purpose of this paper is to develop a conceptual model on international franchising partnerships that integrates factors determining franchise formation, expansion and performance grounded in Relational Contracting Theory. The uniqueness of the proposed model is on its originality as a dynamic behavioral theoretical model to address the possibilities for value creation, performance improvement and minimizing failure probability in franchise systems which is important for managers as well as researchers.

1. Introduction

Why and how franchise firms expand internationally is the focus area of scholars in international franchising (Altinay, 2006; Alon et al., 2017; Madanoglu et al., 2017) as they use theories and models from international Business, entrepreneurship, and marketing to address the problem. Yet, there is no widely accepted theoretical model in international franchising, despite multidisciplinary research (Rosado-Serrano et al., 2018). Scholars have used different methodologies in international franchising. This gap in the research on international franchising creates a necessity for a new and original theoretical model, in tune with the call for more conceptual articles highlighting the importance of new models as useful and impactful (Yadav, 2010).

There is extensive literature on international franchising (Aliouche and Schlentrich, 2011; Alon, 2004; Altinay, 2006; Altinay et al., 2014a; Combs and Ketchen, 2003; Dant et al., 2011; Elango, 2007; Grace et al., 2013; Heung et al., 2008; Hoffman et al., 2016; Kashyap et al., 2012; López-Bayón and López-Fernández, 2016; Mariz-Pérez and García-Álvarez, 2009; Wu, 2015). Nevertheless, little has been done to examine the dynamics that impact the nature of the franchisor-franchisee relationship (Meek et al., 2011). The most commonly used method in international franchising research is case analysis (Altinay and Brookes, 2012; Altinay et al., 2013; Altinay et al., 2014b; Altinay and Wang, 2006; Alon and McKee, 1999; Brookes, 2014; Brookes and Altinay, 2011; Connell, 1999; Doherty, 2007, 2009; Doherty and Nicholas, 2006; Elango 2007; Forte and Carvalho, 2013; Hadjimarcou and Barnes, 1998; Lee, 2008; Miller, 2008; Ming-Sung et al., 2007). Due to the limited availability of secondary data and the reason that many of the franchisors and franchisees are private firms, there are few studies with the empirical validation of a theoretical model. This gap in the literature on international franchising creates a necessity for a new and original theoretical model.

Until now, most research studies on franchising have explored and explained the relationships between the franchisor and the franchisee as a one-directional relationship (Altinay et al., 2014a; Altinay, 2006; Altinay and Brookes, 2012; Brookes, 2014; Brookes and Altinay, 2011; Chiou and Droge, 2015; Croonen and Broekhuizen, 2017; Davies et al., 2011; Doherty 2007, 2009; López-Bayón and López-Fernández, 2016; Brookes and Altinay, 2017). These studies have not completely explained the multi-dimensional elements that influence franchising relationships such as distance and its influence on trust, uncertainty reduction and system performance. Today, international franchising systems behave as economic groups, where decisions and legal requirements at the franchisee level make the franchisor liable for those decisions (Franchising World, 2017b). Therefore, we respond to the requirement for new conceptualization that includes such multi-dimensional elements and addresses the theoretical gaps by developing a new model for international franchise partnership grounded in Relational Contract Theory. We conceptualize a more dynamic behavioural theoretical model with the help of figures (Figs. 1–3) to address the possibilities for value creation, performance improvement and reducing failure in franchise systems which is important for managers and franchising scholars.

Effort has been made to build a new model for international

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franchising, aiming to create a theoretical platform for future research and to stimulate a discussion on international franchising considering relationships as part of the foreign market entry mode decision process. The remainder of this paper is as follows. Review of literature is given Section 2. Conceptual frameworks and models in this area are critically analysed in Section 3 to build our argument for a new model. Relational contracting theory has been explained in Section 4. Our new model is presented in Section 5. Discussion based on the new model and directions for future research are outlined in Section 6. The last section summarizes conclusions.

2. Review of literature

Following the method followed in most downloaded review articles (Keupp and Gassmann, 2009; Apriliyanti and Alon, 2017), we synthesized the studies related to international franchising to review, to find research gaps and build a new model.

Early in the 1970′s, only 14 percent of International Franchise Association members were engaging in franchising outside the United States (Hackett, 1976). In the year 1990, on the verge of the Soviet Union's fall, the opening of the first McDonald's restaurant in Moscow gained the world's attention on the franchising phenomena and global reach of the company. Welch (1993) described these developments in international franchising as how the American franchisors (and from countries such as Canada and Australia) expanded to foreign countries. Research in international franchising began to develop in the early 1990s as a response to domestic market saturation and growth opportunities in international markets (Aydin and Kacker, 1990). These can be classified in three-time phases: in the early 1990s, the late 1990s, and the new millennium which includes the years after 2000 (Merrilees, 2014). Three main theories were developed during these time phases, which were applied to explain the international franchising phenomena. This theories are: *Agency Theory* (Alon et al., 2012; Fladmoe-Lindquist, 1996; Altinay and Wang, 2006; Baena and Cerviño, 2012; Baena and Cerviño, 2014; Choo, 2005; Combs and Ketchen, 2003; Doherty and Quinn, 1999; Garg and Rasheed, 2003; Kashyap et al., 2012; Jell-Ojobor and Windsperger, 2014; Ni and Alon, 2010); Transaction Cost Theory (Alon, 2006; Altinay and Brookes, 2012; Baena, 2012; Baena and Cerviño, 2014; Hoffman et al., 2016; Jell-Ojobor and Windsperger, 2014); and *Resource Based View* (Alon, 2006; Fladmoe-Lindquist, 1996; Altinay and Wang, 2006; Jell-Ojobor and Windsperger, 2014; Mariz-Pérez and García-Álvarez, 2009).

Agency Theory, sometimes referred to as the "Principal Agent Theory" (Alon et al., 2012), suggests that an agency relationship exists between the franchisor (the principal) and the franchisee (the agent). Franchisees can act as independent entrepreneurs, who engage in opportunistic behavior with the goal of enhancing their own units, and who disregard the impact this has on the franchise system (Hoffman et al., 2016). The parties in this relationship may have divergent goals, and associated actions may cause agency costs to rise along with the risk of opportunism (Combs and Ketchen, 2003). Principals have the power to reduce agency costs and control opportunism through direct monitoring, or through a system of aligned incentives (Alon, 2006; Garg and Rasheed, 2003; Heide, 1994). Managers (agents) of company-owned units are less motivated to perform efficiently than owners of franchise units because a major component of their compensation is a fixed amount (Fladmoe-Lindquist, 1996; Alon et al., 2012). Agency theory holds that managers tend to underperform when their salary is fixed. This increases monitoring costs for firms. However, franchisees are both owners and managers of their local operation. According to the process of franchising, firms reduce their monitoring costs and transfer some of the risk to the franchisee (Jell-Ojobor and Alon, 2017). Thus, firms that engage in franchising are in a better position to expand their operations due to risk reduction and monitoring costs (Hsu and Jang, 2009). It has been proven that agency theory is a useful approach to study franchising as a business model at an international level. Research shows that franchisor companies tend to increase their proportion of franchised outlets, as they expand internationally (Alon et al., 2012; Hoffman et al., 2016; Hsu and Jang, 2009; Sun and Lee, 2013). Garg and Rasheed (2003) argued that in the international context, master franchising addresses agency problems — such as bonding, adverse selection, and information flow, inefficient risk-bearing, free-riding, and quasi-rent appropriation— more effectively than does a single-unit franchising company. Agency theory illustrates how parties enter and fulfil contracts which govern their relationship (Baena and Cerviño, 2014). There are several authors who have proposed theoretical frameworks to investigate international franchising using agency theory (Eroglu, 1992; Karuppur and Sashi, 1992). These investigations explore how international franchisors select, recruit and choose franchise partners through different markets and countries, which suggests that human factors play a significant role in the expansion process (Altinay, 2004; Altinay, 2006).

Resource-Based View (RBV), sometimes referred to as "Resource Scarcity Theory" argues that firms use franchising to access scarce resources, especially capital and managerial resources, for rapid expansion (Alon and McKee, 1999; Meek et al., 2011). This theory demonstrates how franchising allows franchisor firms to use the capital and managerial expertise of a franchisee to reach a minimum efficient scale and build brand name (Hsu and Jang, 2009). Per the resource-based view, a firm possesses a unique set of resources, some of which form the foundation for the capabilities required to deploy resources efficiently or effectively in ways that are sometimes difficult for firms with different governance modes to imitate (Hoffman et al., 2016; Sun and Lee, 2018). Thus, the RBV concept can be enforced to the franchising mode of market entry. The types of resources and capabilities needed for market entry may include international experience, size, performance, technology (Erramilli and Rao, 1993), growth rate (Combs and Ketchen, 2003), financial capital, labour capital, managerial talent, and local knowledge (Altinay, 2006). These resources can be the main drivers of an international franchisor's competitive advantage in a host country (Jell-Ojobor and Windsperger, 2014). As an example, the French company Carrefour, has succeeded in exporting their hypermarket concept to developing countries. Carrefour has used an adaptable agile strategy (Alon et al., 2017) at the store level, which has granted a position better than that of Walmart (Colla and Dupuis, 2002). This low control entry mode allows Carrefour to successfully export their concept aggressively from the year 1999 and onwards. On the other hand, Walmart follows a high control mode of entry, for which they have had their share of struggles. Walmart has repeatedly relied on their business model but sometimes forgets to account for local challenges (Doherty, 2000). Having success on their domestic market does not mean that it will be the same at the international level. These inimitable capabilities can be considered good predictors of competitive advantage for firms that engage in international franchising. Large franchise systems have more resources to allocate, and are better positioned to absorb failure (Altinay, 2006). This characteristic reduces management risk perception, which promotes international expansion. On the other hand, if these resources are available internally, then parent firms will prefer to own outlets rather than franchising outlets because it generates greater revenues and profits (Grewal et al., 2011).

Transaction Cost Theory is an application of business concepts developed by Coase (1937) and Williamson (1975). Anderson and Gatignon (1986) derived transaction cost analysis from this theory, which asserts that firms deciding on international expansion and entry modes make trade-offs between control and cost of resource commitment. Karuppur and Sashi (1992) use transaction cost analysis to examine the antecedents of international franchising. Transaction Cost Theory views companies as efficient agents who subcontract activities to external agents who can provide them at a lesser cost than if these activities were performed in-house (Chang and Rosenzweig, 2001). Also, it posits that firms choose to internalize or externalize exchange relationships based on costs incurred during the exchange process (Baena and Cerviño, 2014). Therefore, it provides a rich framework for examining the efficiency of the franchise system. Franchisors seek transaction-specific investments from franchisees to safeguard themselves against opportunism and to enhance franchisee bonding (Grewal et al., 2011). Opportunism entails actions taken by one contract partner to achieve their own goals which are apparently harmful to other contract partners (Williamson, 1975). Franchisees engage in opportunistic behavior by wilfully disregarding the franchisor's goals in pursuit of their own entrepreneurial interests (Evanschitzky et al., 2016; Gassenheimer et al., 1996). Occasionally, franchisees can engage in criminal activities that can put in risk the franchisor; such as hacking POS systems to manipulate gift cards or other information. When firms operate internationally, the geographical distance increases the cost of monitoring the franchisees, despite technological improvements in travel and communications (Alon, 2006). Therefore, franchisors should consider the possibility of opportunism, even as they expand. Transaction Cost Theory has also been used to explain the internationalization mode of entry for small franchisors. Cross et al. (2003) indicate that small franchisors with limited resources and a small network will use master franchising to enter foreign markets and expand their system. Altinay and Brookes (2012) indicate that Transaction Cost Theory enables researchers to understand the power and asset-specific dimensions of relationship development in franchise partnerships.

In summary, these theories help to underpin and develop several models and perspectives. In general, Agency Theory postulates that franchising allows firms to minimize monitoring and shirk costs related to giving more equity, which erodes returns to owners. RBV explains that firms decide to expand to access resources, which can deliver a competitive advantage, while Transaction Cost Theory explains that the trade-offs between ownership and cost of resource commitment facilitates transaction-specific investments. While these approaches have partially explained international franchising, they have also been used to explain franchise partnerships. It is worth noting that by the application of these theories, scholars in this area have attempted to explain partnership constructs- trust and commitment and international franchising constructs such as international expansion and franchise group performance.

3. Review of conceptual models and frameworks

There are prominent theoretical frameworks in research dealing with international franchising and franchise partnerships. We highlight, compare and contrast these frameworks, in this section.

3.1. A conceptual model for internationalization of franchise systems by Eroglu (1992)

Eroglu (1992), developed a conceptual framework to explain the franchisor’s decision to internationalize which depends on the variables of perceived risks and perceived benefits. These are further shaped by organizational (internal) and environmental (external) factors to determine the strength of the management’s intention to internationalize. This model has served as a benchmark and influenced the analysis of the internationalization process of US franchise systems. However, this model has a limitation in that it acknowledges that cost and benefits in the franchise system are invariable, even though they are shown to be variable and highly dynamic in the international context.

3.2. Conceptualization of international franchising (Alon, 2006)

Alon (2006), proposed a master international franchising model in which franchisors internationalize for internal as well as external reasons. He found that the firm’s resources – such as age, size and growth – and the firm’s monitoring capabilities – such as price bonding and dispersion – directly influence the decision to internationalize. This model suggests master international franchising is preferred when market potential is small; competition is intense; demand is unpredictable; franchising is accepted; geographic and cultural distance is high; country risk is high; and legal institutions are stable. This is supported by the ten (10) dimensions of environmental analysis with a degree of agreement between −2 and +2. For example, under this scale the decision maker might find a country with minimal risk and assign a ‘-2’. Similarly, he might assign a ‘0’ when it is neutral, or ‘+ 2’ when the risk is high. This model considers demand (among other firm measurements) as a variable. Although it provides several propositions and constructs that have been used by researchers, it has not gained the necessary level of acceptance needed to fill the theoretical gap in international franchising research.

3.3. Dimensions of international franchising market selection (Alon and McKee, 2006)

Alon and McKee (2006), developed a macro-environmental model of international franchising that divides the host country factors into economic, demographic, distance, and political dimensions. This model focuses on the ‘*how*’ factors which either lead to a choice of country, or a choice of entry strategy. This model follows a similar approach to the one used by Alon (2006), which focuses on the ‘*environment*’, and uses the ten (10) dimensions in the model; though some dimensions are similar and some are different. Both models use a unit of analysis between −2 and +2, but it is different from Alon’s (2006) conceptualization because it focuses on a normative macro-environmental model of international franchising instead of a master international franchising model. Although this model focuses on market selection based on the scores achieved by the host country, the scope is limited because they consider only master franchising as the mode of governance in international franchising.

3.4. International franchise expansion framework by Grewal et al. (2011)

Grewal et al. (2011), presented a conceptual model that views franchise partnerships as entrepreneurial partnerships. Franchise system expansion and performance is based on the dynamics between the franchisor and franchisee. This model considers international franchising as a relationship where the partnership influences the speed, scale and scope of the franchises’ expansion into international markets. Although this model considers different complexities such as franchise system performance, international expansion and franchise partnership, it only presents a one-dimensional view of this relationship.

3.5. Toward a strategic model of global franchise expansion by Aliouche and Schlentrich (2011)

Aliouche and Schlentrich (2011) proposed a global franchise expansion model that underscored franchise systems' preferences for a combination of attractive markets and a stable political and economic context such as those found in highly developed economies. Their model ranks 143 potential expansion countries according to their risk/opportunity profiles. Their model, albeit important by qualifying the level of risk of host countries, it only presents a one-dimensional view of this relationship.

3.6. A model of trust and compliance in franchise relationships by Davies et al. (2011)

Davies et al. (2011) used relational exchange theory to demonstrate how two distinct forms of trust, based upon perceptions of franchisor integrity and franchisor competence are critical to explaining the roles of relational conflict and satisfaction on franchisee compliance. Their model indicates that cooperative relationships based on trust are indispensable for successful entrepreneurship. Albeit their conceptualization expands into more than one dimension, it does not consider the intensity of communication.

3.7. Determinants of master international franchising by Jell-Ojobor and Alon (2017)

Jell-Ojobor and Alon (2017) used theories such as Resource-based View, Organizational capabilities theory, Transaction Cost and Agency Theory to develop a model for the determinants of master international franchising contrasted with behavioral, environmental and organizational factors. In their model, nineteen theoretical propositions are derived focused on the impact of strategic, asset-specific, environmental and behavioral factors from the franchisor perspective. Their conceptualization and propositions provide an extensive review of the determinants of franchisor's control and entry mode choice.

3.8. Push and pull factors by Madanoglu et al. (2017)

Madanoglu et al. (2017) presented a model to explain the US international franchise expansion using munificence, real options and ambidexterity theories. Their model considers the intention to expand internationally through franchising dependent on the following factors: number of outlets, franchisor age, operating US states, franchise fee, start-up cost, the ratio of international outlets/total outlets, operating industry, year and home market munificence. Albeit their model uses a different theoretical approach such as ambidexterity, it focuses mainly on US franchises.

4. Relational contracting theory

The notion of relational contract started to interest scholars when Macneil (1978) explored how difficult and ineffective classical and neoclassical contract laws were at adapting to modern economic structures over the production and distribution of goods and services. Macneil, as a legal scholar, elaborated relational contract theory and behavioural norms over a 40-year span to evaluate exchange relations in business (McLaughlin et al., 2014). Relational contracts are constructed incomplete intentionally so the contracting parties have room to manoeuvre (Jeffries and Reed, 2000), still they are very clear on how the contract begins and how to back out from it (Leblebici and Shalley, 1996). Zaheer and Venkatraman, 1995 developed a model of relational governance using trust as a mediator of the interfirm exchange, thus suggesting a dynamic view of its role. Macneil (1999) defines a relational contract theory using the following four core propositions: 1) every transaction is embedded in complex relations, 2) understanding any transaction requires understanding all essential elements affecting relations, 3) effective analysis requires the recognition and considerations of elements enveloping relationships, 4) a combined contextual analysis of relations and transactions is more effective that non-contextual analysis.

Traditional contracts may have missing provisions, ambiguity; nevertheless, they are recognized by courts (Hart, 2017). Traditional contracts are exposed to moral hazards and asymmetric information problems (Alon et al., 2015; Hart, 2017) that can create difficulties to franchisors and franchisees. On occasions, it is difficult to verify contract performance based on its original provisions, and parties in a long-term relationship such as franchise partnership may rely on incentives contracts that are self-enforced or relational (Doornik, 2006). Due to the internal and external dynamics of this economic relationship, it is important that parties have room to re-negotiate. Relational contracting theory is well suited to underpin the behavior between the franchisor and franchisee as they seek to find equilibrium over their governance and performance. Relational contracts are more fit to govern trust and commitment based relationship in franchise partnerships. Relational contracts are more fit to help franchise partnerships be more efficient and stable, which can lead to international franchise expansion and group performance.

5. A new model

The theoretical models and perspectives previously used in international franchising do not explain the multiple relationships and dynamics in the global economic environment. A new approach is needed to explain the phenomena of economic groups in international franchising and the influence of institutions (formal and informal) on their performance, relationship and organizational economics (Grafton and Mundy, 2017). To date, there is little research in international marketing on how performance should be conceptualized and operationalized (Katsikeas et al., 2000; Katsikeas et al., 2016). Most of the previous attempts to develop theoretical frameworks were based on one-dimensional relationships addressing the "*why*" and "*how*" franchisors expand. By doing so, they are less effective at explaining the multiple levels of engagement between the franchisor and the franchisee. Therefore, there is a necessity to develop a general model that guides managerial decisions while evaluating the performance of franchise partnerships. For this, we will underpin our new conceptual model through Relational Contract Theory. Relational governance structure provides a mechanism for the consultation, discussion and resolution of conflicts that may arise, which at the end could be costly for the franchisor and franchisee (Butler and Baysinger, 1983). In Table 1, we compare the main differences from some notable frameworks available in the literature with our proposed new model.

Before we discuss the complexity of international franchise partnerships, we need to focus on lower level relationships in franchise partnerships. In Fig. 1, we show our conceptualization of each franchise partnership, based on Relational Contracting Theory. As we discussed in our introduction, most of the recent studies explored the relationship between the franchisor and franchisee as one-directional relationship. The relationship developed in international franchise partnerships is multi-dimensional. While macro-economic conditions affect the performance and dynamics of the relationship, not all partnerships are born and behave in the same manner. That is why we developed our multi-dimensional general model shown on Fig. 1. This first model is focused on each independent international franchise partnership. This model does not consider country or geographic performance, only the individual partners relationship. We used this approach because this relationship is governed by a relational contract. The outcome of each individual franchise partnership is value creation and performance improvement. In our conceptualization, the main mediator is face to face communication. Face to face communication increases the possibility of trust and commitment in the relationship. We layered our conceptualization of trust as the principal and direct mediator between the franchisor and franchisee. In our general model on individual partnerships, performance is an outcome of trust on the first layer and then in a secondary layer we found commitment as a reassurance of the continuation of the partnership. In this hybrid governance structure, the franchisor and franchisee work together; yet there is a possibility of opportunistic behavior. This possibility increases risk. Relational contracts increase the possibility of negotiations, which in turn, reduce uncertainty (Jeffries and Reed, 2000). Under these 'routine' dynamics of the ongoing Business (Jeong and Oh, 2017), these relational contracts-informal agreements and norms help increase channel cohesion (Haugland and Reve, 1993). In our conceptualization of this first layer relationship shown on Fig. 1, trust and commitment is key for the success of franchise partnerships. Partners are bounded to maintain this relationship going. Through the combination of the relational variables trust and commitment, the foundation of our international franchise model is underpinned. We could say this relationship depends on layer after layer of experiences, making both dependent on each other, while being independent on their own legal and organizational codes (Gámez-González et al., 2010). It is necessary that the relationship be fluid and

Table 1
Main differences in international franchising and franchise partnerships frameworks.

Eroglu (1992)	Alon (2006)	Alon and McKee (2006)	Aliouche and Schlentrich (2011)	Davies et al. (2011)	Grewal et al. (2011)	Jell-Ojobor and Alon (2017)	Madanoglu et al. (2017)	Our new model
Perceived costs and benefits are invariable	Focus on Environmental analysis and master international franchises	Focuses only on macro-environmental conditions and master franchising	Focuses on host countries risk/ opportunities profile	Focuses that relationships based on trust are indispensable for successful entrepreneurship	Partners influence the speed, scale and scope in internatio-nalization. Focuses only on one-dimensional relationship.	Focuses on the franchisor choice of ownership or master franchising in host countries	Focuses on the internationalization of US franchises using Real options, Ambidexterity and Munificence	Focuses on multidimensional elements of each individual franchise partnership as well of the system wide performance and international expansion of the group

responsive enough to correct any off-band notes, which in turn helps the partnership to be stronger and to be a growth catalyst for the franchise group. Each franchise partnership may have a circular or elliptical shape formed by organizational economics. Nevertheless, we can't assign a specific geometric form or intensity to the dynamics because each relational contract and partnership is different from each other. The only clear dynamics established at the beginning is the formal contract (Leblebici and Shalley, 1996).

International franchising is a result of many individual franchise partnerships. Some partnerships are developed and sustained at the home country of the franchisor, while others are the result of international expansion. Before franchisors start the process of international expansion, they need to acquire knowledge of the host market to export the concept, select the appropriate partner (Lucia-Palacios et al., 2014) in the host country that will increase the likelihood of success instead of failure (Altinay, 2006). Similarly, they must decide which governance structure they will adopt the basis of their relational contracts to promote the development of trust (Zaheer and Venkatraman, 1995).

Before observing how this partnership evolves, we must observe the inner beginnings from the franchisor and franchisee perspective. As part of the foundation, the franchisor management team needs to be culturally sensitive (Altinay et al., 2014a,b; Altinay and Brookes, 2012) and develop a strong international orientation (Altinay and Brookes, 2012). The process must begin by enhancing their comprehension of other cultures (Vassou et al., 2017). By doing so, they increase the likelihood of scanning new opportunities and reducing any bias or prejudice. Similarly, franchisees must have extensive knowledge of the local market (Altinay et al., 2014a,b; Altinay and Brookes, 2012; Altinay and Okumus, 2010; Grewal et al., 2011), and an aptitude to learn of any new developments. Franchisors seek this foreign market knowledge (intangible asset) from franchisees (Altinay and Brookes, 2012). Similarly, franchisees must be aware of how much risk the franchise brand is willing to tolerate (Altinay et al., 2014b; Altinay and Okumus, 2010). Franchisees must be comfortable with the brand they are partnering with. This brand should be well known and fit for the franchisee's financial & lifestyle expectations Therefore, franchise brands must develop international exposure (Brookes and Altinay, 2011), or increase recognition to reduce the risk the franchisee might experience from partnering with an unqualified international franchisor.

In Fig. 1, we illustrate the first layer of the new franchise partnership model which shows the fluid role of both partners in the relationship. Both partners must be responsive and sensitive to correct any misunderstandings. For this relationship to be successful, the franchisor needs to fulfil the expectations of the franchisee and *vice versa*, through a very dynamic communication. Altinay et al. (2014b) indicate communication is a crucial element to increase trust and commitment. In our model, an increase/decrease of face to face communication, increments the odds of trust and commitment building. Partners must be aware of the psychological factors that influence this relationship which goes further than a legal contract or their commercial relationship: trust, commitment and the informal expectations they have of each other (Nathan, 2014). Franchisors need to provide appropriate information to reduce risk exposure, and address any doubts and concerns that might crop up (Altinay and Brookes, 2012) from the initial meetings prior to engaging in the partnership. Similarly, the franchisee must be a willing development partner who has the commitment and resources to develop the market. Both are dependent on each other's insights to re-define the entire business. If the franchisee does not commit itself as a partner, the franchise partnership does not evolve (Altinay et al., 2014a,b; Altinay and Brookes, 2012; Altinay and Okumus, 2010; Brookes and Altinay, 2011; Grewal et al., 2011) as a growth catalyst. All the elements are necessary to begin a franchise partnership, which is a relationship based on trust (Shi and Liao, 2013) and commitment (Altinay et al., 2014a,b; Altinay and Brookes, 2012; Altinay and Okumus, 2010; Altinay and Wang, 2006; Brookes and Altinay, 2011; Grewal et al., 2011; Merrilees, 2014; Vaishnav and Altinay, 2009).

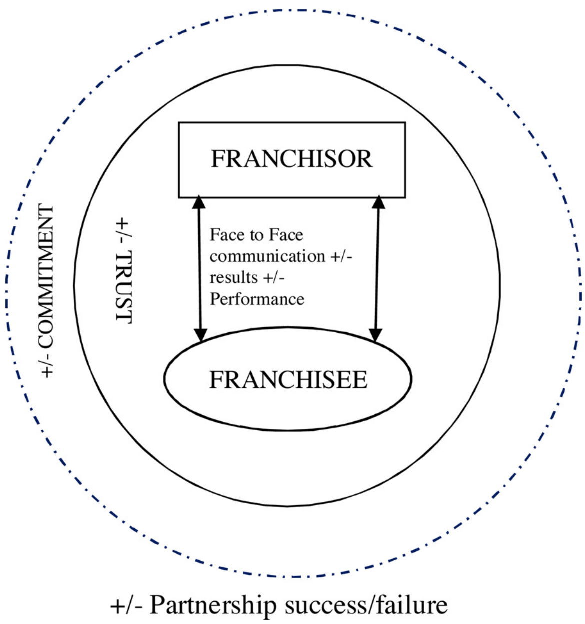

Fig. 1. Franchise partnership model.

In the first phase, foundations are laid which initiate the development of the international franchise partnership. In Fig. 2, we describe the factors that contribute to the success or the failure of franchise partnerships. On this matrix, we conceptualize the relationship is in equilibrium when there is a dynamic re-negotiation of the relationship terms because of the factors from the franchisor/franchisee perspective. These factors have different effects. Under dynamic re-negotiation, the principal and direct mediator is a greater level of face to face communication. Franchisors need to understand the relationship and view it as an ongoing multi-layered process; they need to constantly assess and invest in maintaining trust within the relationship. The state of the relationship must be affirmed on a constant basis to level the equilibrium. In the second layer, franchisors must maintain a well-rounded perception of goodwill and value, to differentiate themselves from other franchise alternatives. This is achieved by the re-affirmation of the relationships' value for the franchisor/franchisee. Franchisors need to articulate its perceived superiority over other brands (Altinay and Brookes, 2012; Altinay et al., 2014a). Franchisees as well as franchisors should benchmark themselves with respect to median and top performers on a constant basis, which provides insights on network performance and best practices (Franchising World, 2017a). For example, McDonald's in China had been struggling to maintain its superiority over emerging Chinese chains like Kung Fu or Japanese noodle chains like Ajisen (Quartz, 2016). This situation also influenced their decision to develop and establish a relationship with a new local partner. In a third layer, franchisors must culturally invest in the relationship (Altinay and Brookes, 2012; Altinay and Okumus, 2010; Vaishnav and Altinay, 2009). For example, McDonalds had been expanding its food operations in China and wanted a new partner who has strong insights into the Chinese market (Quartz, 2016). Cultural factors are one of the key antecedents that influence the adoption of international franchising (Madanoglu et al., 2017).

As in all business decisions, prospective franchisees need to conduct a market analysis. This is not only limited to the beginning phase of the partnership, rather it must be a continuous process that is dynamic and must be maintained throughout the life of the relationship. Communication, which is one of the most essential elements in the matrix for success of the franchise partnership, must be done face to face whenever possible to build and strengthen trust (Altinay et al., 2014a,b; Altinay and Brookes, 2012; Altinay and Okumus, 2010; Altinay and Wang, 2006; Brookes and Altinay, 2011; Grewal et al., 2011; Merrilees, 2014; Vaishnav and Altinay, 2009). The corporate liaison must travel to the host location, and should not limit communication to digital channels such as email or Skype. Communication and trust are built and established on commitment and cannot function solely through a long-distance relationship. After the partnership has been adopted, certain situations may erode the foundations of the partnership, if they are not addressed properly. For example, excessive control of the brand by franchisors can lead to partnership failure (Altinay et al., 2014a; Altinay and Brookes, 2012; Altinay and Okumus, 2010; Merrilees, 2014). In the case of McDonald's in China, the franchisors give up control over intellectual property, sourcing of food and service quality to the local partner, to enable the build brand process in Asia (Quartz, 2016). This requires an elevated level of trust and communication with the local partners.

A lack of knowledge transfers from the franchisor to the franchisee and *vice versa* can also erode the relationship (Altinay et al., 2014a; Altinay and Brookes, 2012). One of the basic assumptions in franchising is that prospective franchisees will receive a successful business format, but if the franchisor does not share new developments, this could lead to failure of the partnership (Rosado-Serrano, 2017). Franchisees have been known to develop enhancements in the business process. Some franchisees have introduced new products based on their field experience. Franchisees should keep the franchisor always informed about domestic issues that could potentially have an impact on the operation. For example, in Puerto Rico, the local government imposed a law (Act 247-2015) that prohibits the use of disposable plastic bags and promotes the use of reusable bags (Juris, 2016). This placed a heavy burden on the local franchisees and brands that use uniform bags across the system. Under these circumstances; a lack of information sharing on either end can lead to partnership failure. Similarly, new legal developments in foreign markets can also affect the franchisor. For example, franchisors are liable for franchisee labour practices in Brazil; therefore, the lack of knowledge about development in foreign formal/informal institutions also affects the franchisor and the economic group

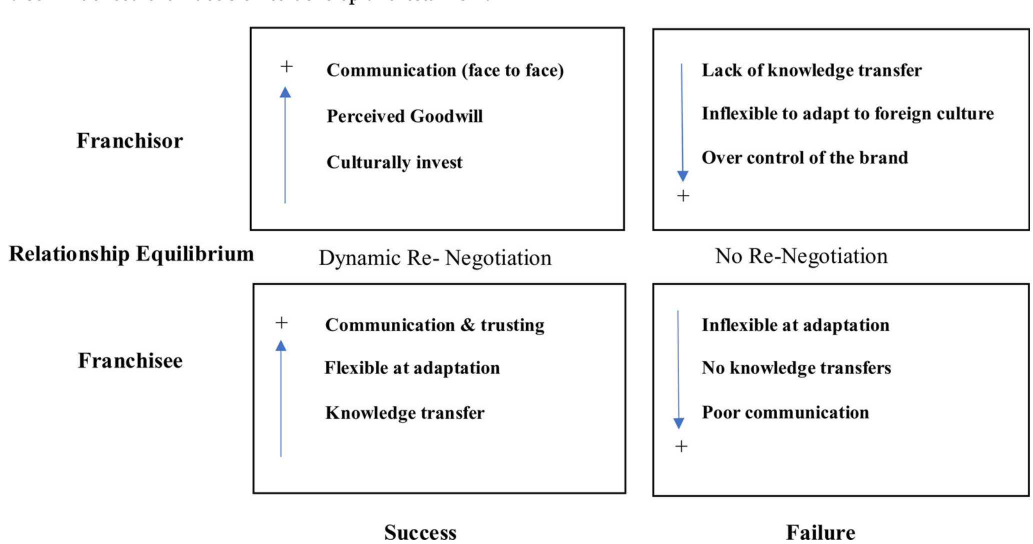

Fig. 2. Dynamics in partnership matrix.

(Franchising World, 2017b). If the franchisor becomes inflexible in adapting to a foreign culture, a possibility of franchise failure is very likely (Altinay et al., 2014a; Altinay and Brookes, 2012; Altinay and Wang, 2006; Altinay and Okumus, 2010; Merrilees, 2014**).** For example, McDonald's had to change their approach in the Chinese market, they had to drop "the all-day breakfast" and their traditional food offers and find a local partner to invigorate the brand in China with healthier options or "fast-casual" food, in response to the local consumer's demands (Quartz, 2016). Franchisors provide a proven business process; yet when both parties become inflexible (when franchisee management does not adapt to franchisor business practices), it could lead to partnership failure because of this conduct between parties. As shown in Fig. 2, as the intensity of factors from the franchisor/franchisee is high, the probability of success increases thus producing a relationship equilibrium.

This leads us toward a new conceptual model for international franchise partnership formation, expansion and performance assessment shown in Fig. 3. At the core of our model, there are individual franchise partnerships that could be domestic or international, yet both influence the group's international expansion. The underpinning of this conceptual model lies on the relational contract formed which requires fluid dynamics of trust and commitment that bond the franchise partnership. To conceive a franchise partnership analysis of matching elements and due diligence (trust and commitment) is required from both the agent (franchisee) and the principal (franchisor). The trust building process involves the prospective franchisees to demonstrate their ability to embrace the franchisor's culture and be a good fit to the franchisor's network. They must articulate their managerial and learning capacity to comply with the initial development, thus reducing uncertainty for the franchisor. Similarly, prospective franchisees must demonstrate long term commitment to network development, which in turn increases the franchisor's trust towards partnership adoption. In addition, partners must increase face to face communication, which helps increase trust and well as their commitment in the relationship. Once each partnership is established, the franchise system starts to expand if an optimal performance of the relationship is maintained (Doornik, 2006). This process can occur directly or indirectly, within the boundaries of each partnership and for the group itself; thus, demonstrating the multi-dimensional dynamics that occur in international franchise partnerships (Lusch and Brown, 1996). Franchise systems can expand internationally by growing multiple own (Alon et al., 2015) and franchised outlets in foreign countries; this could be concentrated in a single country or could expand to multiple countries. This is considered as the level of dispersion (Alon et al., 2012; Hsu and Jang, 2009; Koh et al., 2009; Rhou and Koh, 2014; Madanoglu et al., 2017; Ni and Alon, 2010). It has been found that the expansion follows a non-linear pattern (García-García et al., 2016; Hsu and Jang, 2009; Ni and Alon, 2010; Sun and Lee, 2013), this aligns with the notion of multidimensional dynamics occurring in international franchising. In our conceptualization, each partnership could have different boundaries over their geographic dispersion. Firms need to have a differentiation measure of their foreign concentration and expansion if they want to better assess their expansion process. As the franchise system grows, it is necessary for managers to evaluate how the system is working and performing from the perspective of each partnership as well for system performance. For this evaluation, the franchisor could use financial measures that assess specific franchise performance aspects such as return on assets (ROA), return on equity (ROE) and a measure of intangible value (García-García et al., 2016; Hsu and Jang, 2009; Koh et al., 2009; Sun and Lee, 2013); among others. To assess partnership performance, franchisors must use measures for the success and failure of franchise partnerships and the elements that determine franchise performance. Similarly, the use of relational contracting could reduce misalignment and increase performance measurement (Sande and Haugland, 2015). This new model for international franchising conceptualizes a dynamic process after the adoption of the partnership. The partnership must be evaluated on financial and qualitative measures, which need to be constantly monitored to maintain trust, commitment, and to ensure the effectiveness of its performance.

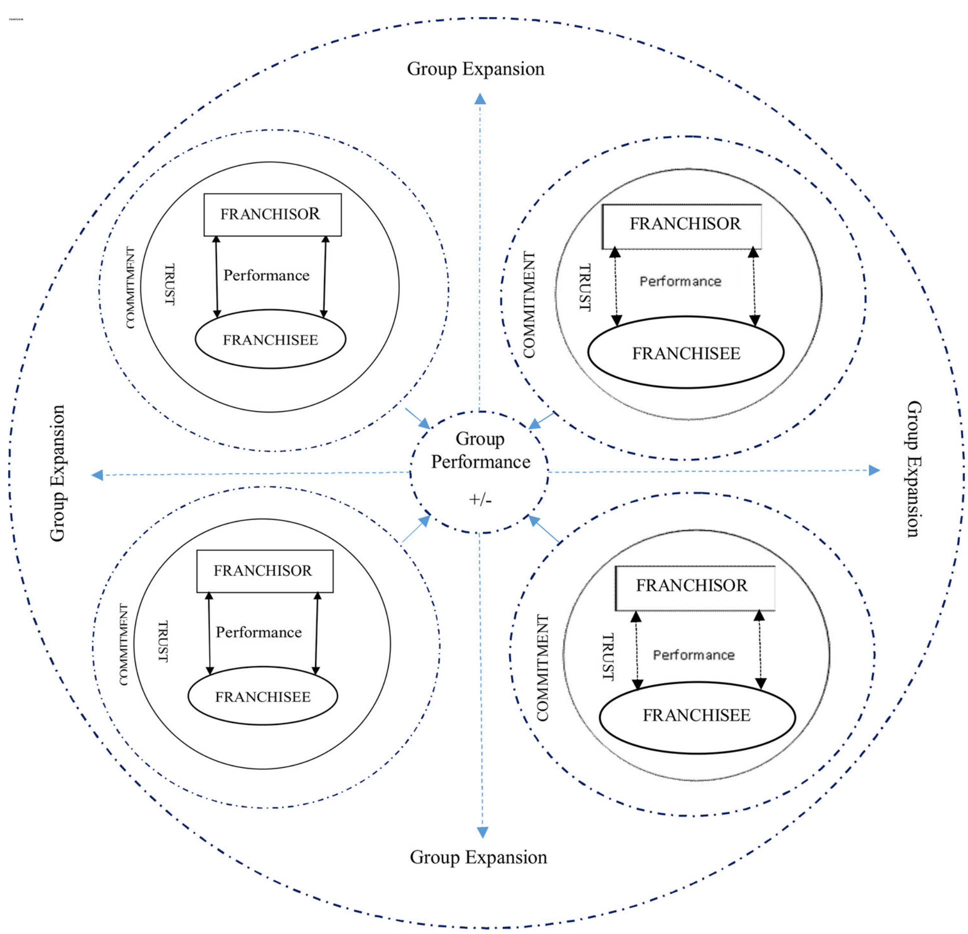

Fig. 3. Conceptual Model for International Franchising.

6. Discussion and directions for future research

We have discussed the complex relationship occurring between the franchisor and the franchisee, where each one faces multiple tasks. If teamwork is not accomplished because of this partnership, an optimal performance cannot be attained (Ishihara, 2017). Rosado-Serrano et al. (2018) indicate that much of the extant literature on international franchising has explored the franchisor perspective on partner selection. Now, franchise network governance and interaction has been viewed as a static structure. Some franchisors have benefited on having organizational distance from its franchisees when cyber-attacks affect their franchises (Moskowitz, 2017). Yet, isolation does not benefit the physical and knowledge flows Harzing and Noorderhaven (2006), and it could be worse for organizations with high geographic distance. Wright and Grace (2011) indicate that the initial formation and further development of the partner relationship is affected by long distance where isolation can occur. Nowadays, communication follows formal and informal avenues such as social media; albeit these improvements, not all the interfirm communications are successful. Scholars must explore how the use of face to face communication increases the success in international franchise partnerships instead of the adoption of informal avenues. Therefore, we proffer the following proposition:

Proposition 1. *Higher the face to face interactions between the franchisor and franchisee, higher the likelihood of trust in international franchise partnership adoption.*

Geographical distance has been used to explore international franchising (Alon, 2006; Baena, 2012; Baena and Cerviño, 2014; Dant and Grünhagen, 2014). It was found that geographical distance is positively related to the adoption of international franchising because it reduces monitoring costs and produces economies of scale (Alon, 2006; Alon et al., 2012). As international franchise partnerships require greater commitment, trust building, and performance evaluation. Rosado-Serrano et al. (2018) suggest that franchise systems performance should not be observed in isolation and future studies should observe the role of franchise dispersion (Song et al., 2017) and complexity. We suggest that financial performance and a geographical dispersion analysis could be a better way to explain this phenomenon. This raises an important research question. When franchise systems expand, do they expand geographically to numerous countries or decide to concentrate in fewer countries. Thus, we postulate:

Proposition 2. *There is a non-linear steep sloped relationship between international franchise dispersion, its profitability, proportion and intangible value.*

At the firm level, the lack of familiarity and experience in the foreign market, and low risk tolerance discourages a firm from expanding (Aydin and Kacker, 1990; Eroglu, 1992). In a similar vein, international experience, market knowledge, and growth opportunities, support the decision to expand overseas (Alon, 2006; Altinay and Wang, 2006; Aydin and Kacker, 1990; Fladmoe-Lindquist and Jacque, 1995). Considering this, future scholars could investigate the influence of social media from the management's point of view of the host market. Thus, we derive the following proposition:

Proposition 3. *The greater the management's adoption of social media, the higher the probability of commitment and the adoption of an international franchise partnership.*

We believe that our model contributes to the understanding of international franchising by providing a greater context to both, the practice and the development of international franchising partnerships. Similarly, future researchers could use our propositions as hypotheses in their research studies and test them using statistical tools.

Future research could use this model to broaden the understanding of international franchise partnerships. There are possibilities for identifying and analysing the determinants of international franchising, particularly there is scope for analysis on whether master franchising is appropriate in foreign markets and what kind of markets they are suitable for. One area worth exploring would be to identify if there are any differences between the diverse types of franchisee organizations: private and public corporations, anonymous societies (as used in Spain), family businesses, among others. These types of legal and cultural business forms vary depending on each country's legal and cultural traditions, which in turn could provide greater comprehension into the international franchise partnership adoption. Similarly, another research area that would be worth exploring is international expansion of family firms through franchising. Chirico et al. (2011) argue that family franchises exist and when franchisors select a family firm as a partner, the outcome of the franchising-based collaboration tends to be positive on more occasions than with other nonfamily firms. Future researchers could explore the effects of family firms engaging in international franchising partnerships from the franchisor and franchisee perspective.

7. Conclusion

Our research shows that international franchising has been mainly approached from three theoretical perspectives: agency, resource-based, and transaction cost theories. However, these approaches had only focused on the perspective of the franchisor. It suggests that there are unanswered questions and theoretical gaps that can further explain why and how franchisors decide to expand and the complex dynamics that occur under the economic group that is formed between the franchisor and the franchisee. This is primarily due to limited availability of data mainly because many of the franchisors and franchisees are private firms, who do not share the data easily. Similarly, there are current trends that also influence how international franchising partnerships are formed and maintained such as new regulations initiated from emerging markets that can influence how the relationship is governed between these economic groups. Therefore, to fill this gap, the perspective of the franchisee must also be taken into consideration. Thus, we developed a new model for international franchising partnerships based on the two main theoretical constructs and on findings from prior studies and explained the phenomenon of international franchising. Overall, this paper attempts to contribute to the understanding of International franchising partnerships, through a new model. Our model has a robust and ample theoretical foundation and integrates moderating factors, which appear within franchise partnerships with those, which are used to moderate franchise performance. Our model would be also useful for managers and entrepreneurs who venture into international franchising by helping them to scientifically analyse the phenomenon phase by phase.

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