Olufunmilola (Lola) Dada (forthcoming), Curbing franchisee failure: A systematic review of the empirical evidence, Journal of Small Business Management

ACCEPTED FOR PUBLICATION | January 25, 2021
ORCID NUMBER: https://orcid.org/0000-0002-4271-8331

Olufunmilola (Lola) Dada
Senior Lecturer
Lancaster University Management School
Lancaster, LA1 4YX

Curbing franchisee failure: A systematic review of the empirical evidence

Abstract
Franchisee failure is a major incidence that threatens the stability of franchise businesses globally. Yet there has been no synthesis of the empirical evidence in order to systematically understand the factors that increase the likelihood of franchisee failure. The diverse conceptualizations and discrepant causes of franchisee failure have resulted in a fragmented literature. Through a systematic review of the empirical literature, an all-inclusive model for curbing franchisee failure is developed – comprising the single and joint influencing factors. The evidence elucidates how to mitigate franchisee failure in order to optimize the prospects of franchisee survival.

Keywords
Franchising, franchisee failure, franchisee survival

Introduction

Franchising is an important route to business ownership, with over 2.2 million franchise outlets worldwide.[1] As franchising soars in popularity, so does the prevalence of franchisee failure (Frazer and Winzar, 2005; Grünhagen et al., 2017; Jang and Park, 2019; López-Fernández and López-Bayón, 2018; Patel and Pearce, 2019). Franchisee failure, which refers to 'negative franchisee exits', describes situations where franchisees leave franchise chains due to adverse reasons, such as disagreement with the franchisor and unprofitable business operations (Frazer and Winzar, 2005). Extant literature on franchisee failure contains divergent terminologies, conceptualizations, research approaches and mixed findings (Frazer and Winzar, 2005; Holmberg and Morgan, 2003, 2007). Research on franchisee failure is fragmented, with inconsistencies on its causes complicating how it can be minimized (López-Fernández and López-Bayón, 2018). There has been no synthesis of the empirical evidence to generate systematic knowledge on the factors that increase the likelihood of franchisee failure. Through a systematic review, which reconciles dichotomies in the empirical

[1] Compiled from various sources (BFA/NatWest Franchise Survey, 2018; CFA Annual Accomplishments Report, 2019; Entrepreneur.com; Export.gov; Forbes.com; Franchise.org; Statista; whichfranchise.co.za).

literature, this paper aims to develop knowledge on how to curb franchisee failure, by synthesizing the evidence on why franchisee failure occurs.

Franchising "takes the form of a legal contract between the owner of a trademark (the franchisor) and independent business owners (franchisees) to operate under the owner's trademark to sell products or services in accordance with the owner's 'blueprint'" (Cox and Mason, 2009: 503). It enables franchisees to benefit from the franchisor's brand name capital, training and support (Carney and Gedajlovic, 1991; Lafontaine et al., 2019; Norton, 1988). In return, franchisees make an upfront investment for the rights to the franchise, thereby creating an economic incentive to stay in the franchisor-franchisee relationship (Meek et al., 2011; Mignonac et al., 2015; Perdreau et al., 2018). Although there are shorter franchise agreements, franchise contracts are typically set to cover 10-to 20-year periods (Clarkin, 2008; Dant et al., 2011), yet many franchisor-franchisee relationships do not reach contract maturity date, not to even mention having franchise agreement renewals (Grünhagen et al., 2017; López-Bayón and López-Fernández, 2016). Franchising is associated with tension, conflict and dispute in the franchisor-franchisee relationship, which can lead to litigation, dysfunction and premature termination of the relationship (Antia et al., 2013; Frazer et al., 2012; Frazer and Grace, 2017; López-Fernández and López-Bayón, 2018; Wang et al., 2020; Winsor et al., 2012). A complex entrepreneurial partnership exists between the franchisor and franchisee, due to their differing roles, goals and interests (Chiou et al., 2004; López-Bayón and López-Fernández, 2016; López-Fernández and López-Bayón, 2018). Nevertheless, franchisors encourage individuals to purchase a franchise as a less risky alternative to starting a new business venture (Buchan et al., 2015; Zachary et al., 2011). While some studies support the notion that franchising increases business success, critics argue that franchising does not significantly increase the survival rates of franchise outlets (Falbe and Welsh, 1998). It has been reported that operating franchise outlets is associated with higher business failure rates, relative to owning non-franchised businesses (Bates, 1995b). Gant and Buchan (2019) emphasize that there is no empirical support for the assertion that franchises have lower failure rate than other businesses. U.S. data shows high turnover rate of franchise outlets (122%), with more leaving than opening, i.e., there are 122 franchises that leave for every 100 newly opened franchises (Sniegowski, 2014). Hence, more research is required to understand why franchisee failure occurs, and how it can be alleviated.

The major contribution of this paper is the development of an inclusive model, integrating different theoretical and franchise actor perspectives, to explain franchisee failure and how to curb its occurrence. Such systematic-based evidence does not exist, despite franchisee failure representing an important research area. The failure of every franchise outlet impacts on others in the franchise system (Frazer and Winzar, 2005). It has been found that there is a spillover of franchisee failure to other franchisees in the system; i.e., in any particular year, a franchisee is nearly twice as likely to fail if there is at least one franchisee within the same franchise system that has failed the previous year (Antia et al., 2017). Additionally, empirical evidence indicates that an increase in franchisee failure will increase the likelihood of franchisor failure (Antia et al., 2017). A crucial factor for the long-run viability of the franchisor is franchisees' continuance with the franchise business (Antia et al., 2017; Calderon-Monge et al., 2017; Jang and Park, 2019). Given the global presence of franchise businesses and the important role of franchisees in the success of franchise chains, it is vital to understand why franchisees fail (Michael and Combs, 2008) and what can be done to minimize this incidence.

In the next section, the methodology employed in this study is explained, after which the findings are presented. Then, the implications, limitations, future research directions, and conclusion are discussed.

Methodology

This study employed a systematic literature review, a methodology adopted from the medical sciences for synthesizing research in a manner that is structured, transparent and reproducible (Parris and Peachey, 2013). In medical fields, systematic reviews identify parts of agreement and disagreement between scholars within certain areas of research (Perkmann et al., 2013). A systematic literature review in the present study enabled identification of key scientific contributions in the research area, building an evidence base that exceeds the parameters of a single study (Hakala, 2011). This approach has been employed in prior franchising studies (e.g. Dada, 2018; Nijmeijer et al., 2014).

Data collection

Inclusion criteria. To identify studies to include in the review, three inclusion criteria were employed, following Wang and Chugh (2014), namely determining the: (1) search boundaries, (2) search terms, and (3) coverage period. First, the search boundaries comprised the following electronic databases: ABI/INFORM Complete (ProQuest), Business Source Complete and JSTOR. Second, to find relevant articles, appropriate search terms, which makes sense from a linguistic perspective, were employed because scholars from different disciplines use different terms when describing similar concepts (Fitz-Koch et al., 2018). In addition to franchisee failure, the search terms comprised other words used in the literature as inferences for the incidence, namely: demise, discontinuance, propensity to leave, leave, left, exit, premature termination, termination, non-renewal, turnover, closure, conversion to company-owned outlet, resale, sale of outlet, transfer of outlet to other franchisees, survival, cancelled for quality control, bankruptcy, loan default, dissolution and post-litigation relationship dissolution (e.g. Alon et al., 2015; Antia et al., 2017; Brand et al., 2016; Frazer and Terry, 2002; Frazer and Winzar, 2005; Frazer et al., 2007; Grünhagen et al., 2017;

Holmberg and Morgan, 2003, 2004, 2007; López-Fernández and López-Bayón, 2018; Meek et al., 2011; Michael and Combs, 2008). Third, the coverage period comprised published articles, available up to June 2019.[2]

Search strategy. A search of the Title and Abstract fields of the above electronic databases was undertaken (Wang and Chugh, 2014). These electronic databases were chosen because they contain similar search categories, enabling consistent search strategy. To ensure articles focused on the franchising context, truncation was used in the root word 'franchise'. Where necessary, the search was conducted using truncation in the search terms stated above to ensure outputs generated included all relevant studies that had variants of the search terms.[3]

---

[2] The starting year for selection of relevant studies was not restricted in order to identify when empirical research on franchisee failure began to attract scholarly attention in the academic literature. As seen in the findings section discussed later, the first empirical research on franchisee failure occurred in the early 70s, making the non-restriction of the starting year for selection of relevant studies vital, as this period coincides with when franchising research in general began to attract increasing attention in the academic literature.

[3] In other words, the search consecutively involved a combination of the below.
franchis* AND fail*
franchis* AND demise
franchis* AND discontinu*
franchis* AND propensity to leave
franchis* AND leave
franchis* AND left
franchis* AND exit*
franchis* AND premature termination
franchis* AND terminat*
franchis* AND non-renew*
franchis* AND nonrenew*
franchis* AND non renew*
franchis* AND turnover
franchis* AND clos*
franchis* AND conver*
franchis* AND re-sale
franchis* AND resale
franchis* AND re sale
franchis* AND sale of outlet
franchis* AND transfer of outlet
franchis* AND surviv*
franchis* AND cancel*
franchis* AND bankrupt*
franchis* AND loan default*
franchis* AND dissol*
franchis* AND post-litigation relationship dissolution

The search focused on publications in peer-reviewed academic journals, written in English and where full texts are available (or contents are accessible).[4] As with many systematic reviews, only evidence from journal articles were included because of their significance. Keupp et al. (2012: 369) note that "journal articles can be considered validated knowledge and are likely to have the highest impact on the field". To avoid omission of relevant studies, the reference lists of the selected articles were checked and searches using variants of the keywords were undertaken in Google Scholar (Dada, 2018). An initial sample of 994 articles was obtained from the overall search strategy (Table 1).

[INSERT TABLE 1]

Exclusion criteria. The initial sample was assessed further using the following exclusion criteria. First, duplicate articles were removed. Second, non-empirical articles were eliminated because the focus of the review is on empirical studies, i.e., articles based on data collection and analysis, using quantitative, qualitative or mixed methods. Third, articles not based on business format franchising, which is the focus of this review, were removed (these comprised articles on product distribution franchising, rail franchises and sports franchises). Fourth, articles with references to franchise, but not focused on research undertaken within the franchising context, were eliminated. Finally, articles not applicable to the aim of this review were excluded – although the search terms were present, these articles were not focused on franchisee failure (these comprised research where there is no apparent reason for discontinuation of franchise outlets, and where franchisee failure is not differentiated in the business failure examined). In all, the exclusion criteria produced a final sample of 34 articles, used for the systematic review.

[4] Although almost all the journals in JSTOR are peer-reviewed publications, there are some exceptions such as journal contents that are much older than the standard peer-review process of today; this implies that such exceptions might not be technically peer-reviewed, although all the information in JSTOR are of scholarly standard (JSTOR Support).

Data analysis

Data was analyzed using content analysis, a research technique that uses a set of procedures to make replicable and valid inferences from texts (Krippendorff, 2004; Weber, 1990). Prior systematic literature reviews have employed content analysis (e.g. Dada, 2018; Davey et al., 2009; Germain and Cummings, 2010). Content analysis is "the accepted method of investigating texts", and it results in a numerical description of the features of a given text, or the development of a series of images (Joffe and Yardley, 2004: 56). It is a highly flexible research technique that can be applied in a quantitative and/or qualitative manner, although both quantitative and qualitative content analyses have many similar elements (White and Marsh, 2006).

Qualitative content analysis was conducted manually in this study, following the guidelines in Hsieh and Shannon (2005), also employed in a prior franchise study by Dada et al. (2016). Based on Hsieh and Shannon (2005), the analysis in this study was undertaken as follows. First, the texts relating to the empirical evidence in each article (e.g. the research background, aims, questions, theory, hypotheses and results) were read several times to facilitate holistic immersion. Second, codes were obtained from the texts in each article by identifying key notions or concepts in the empirical evidence, which have a relationship with the aim of the review (e.g. based on empirical evidence in three articles – namely, Brand et al., 2016; Croonen and Brand, 2015; Croonen, 2010 – 'franchisee disagreement [with franchisor-initiated changes]' was derived as the code that has a relationship with franchisee failure). Third, the codes from each article were sorted under a main and sub-category based on the links between different codes and how they are related to franchisee failure (e.g. the code used for the illustration in the preceding step was sorted under a main and sub-category). Finally, the definitions for each code, main category and sub-category were created (e.g. the code, main category and sub-category in the preceding illustration were defined as ‘franchisee disagreement’, ‘single [influencing] factors’ and ‘franchisor-initiated changes’, respectively). To enable development of a processual model, a visual map was used to represent the emerging relationships (Whetten, 1989; Zerbinati and Souitaris, 2005). Following Dada (2018), this involved creating a large diagram – similar to Figure 1 (discussed below) – and articles were allocated into their respective positions in the diagram.

[INSERT FIGURE 1]

Results

The empirical literature

Table 2, description of articles in this review, shows that most of the studies were published over 23 years (1995–2018).[5] The majority used quantitative research designs (n = 24), consistent with arguments that most franchising studies use quantitative methods (Cox and Mason, 2009). Six articles used qualitative methods; four articles used mixed methods (quantitative and qualitative). Most of the studies collected data from more than one industry sector (n = 24). The U.S. (and North America) were the most researched (n = 19), consistent with Dant’s (2008) observation that most franchising research has focused on the U.S. Diverse levels/ units of analysis were employed (e.g. franchisees, franchisors and ex-franchisees).

[INSERT TABLE 2]

[5] Except for one study in 1972.

Theoretical perspectives for studying franchisee failure

Evidence from this systematic literature review reveals that studies on franchisee failure draw on diverse theoretical perspectives, notably agency, resource-based, signalling, transaction cost, relational exchange, institutional, and bargaining power.

(1) Agency theory

The most used perspective in prior research for examining franchisee failure was agency theory (n = 14), aligning with arguments that the franchising literature focuses largely on agency theory (Barthélemy, 2011). As Grünhagen et al. (2017) explain, an agency relationship occurs when one party (the principal) depends on another party (the agent) to undertake actions on behalf of the principal; the principal faces two main problems, namely pre-contractual adverse selection (hidden information) and post-contractual moral hazard (hidden actions). The focus of agency theory is on resolving two potential problems in agency relationships, namely: (i) the conflicting desires or goals of the principal and agent and the difficulty that will be encountered by the principal in trying to verify what the agent is actually doing and whether such activities are in the best interests of the principal, and (ii) the risk-sharing that may occur due to the principal and agent having different attitudes toward risk and consequently preferring different actions (Alon et al., 2015). The dynamics arising as a result of this contractual relationship provide the basis for studying franchisee failure using agency theory.

(2) Resource-based perspective

Some other explanations in the literature on franchisee failure have drawn on the resource-based perspective. According to this premise, resource-based perspective is useful for studying factors leading to franchisee failure, given the expectation that valuable resources should be made available by both franchise parties. This perspective suggests that by using franchising, the franchisor will make investments in strategic resources, and access scarce resources via franchisees to finance expansion (Alon et al., 2015; Michael and Combs, 2008).

(3) Signalling theory

In studying franchisee failure, signalling theory has also been employed. This perspective suggests that prospective franchisees are keen to benefit from the incentive advantages of franchising, but they might face an asymmetric information problem because franchisors can deliberately misrepresent information, or have difficulties in signalling the quality of their concepts, to aspiring franchisees (Alon et al., 2015). The several lawsuits that often arise in franchising relationships are evidence of conflicts over misrepresentation (Alon et al., 2015).

(4) Transaction cost economics

Another perspective employed to examine franchisee failure is transaction cost economics, which suggests that greater specific investments by franchisees should be associated with longer contract duration, since longer-term contracts provide a safeguard for those franchisee investments (Argyres and Bercovitz, 2015). As Hendrikse et al. (2015) explain, based on the transaction cost theory, transaction-specific investments and uncertainty (i.e. environmental and behavioral uncertainty) influence contractual completeness.

(5) Relational exchange perspective

In studying franchisee failure, relational exchange perspective has also been employed. Franchising is a form of relational exchange, where there are a number of potential areas for conflict, thereby making its successful management both a complex and critical challenge for franchisors (Watson and Johnson, 2010). According to relational exchange theory, the future relationship between the franchisor and the franchisee will be under threat if the goals of the franchisor are not congruent with those of the franchisee (Davies et al., 2011). As highlighted by Frazer et al. (2012), franchising involves interdependent relations that influence behavior positively or negatively, and there is an emphasis on trust in facilitating productive relational exchanges. In franchising, trust functions as the bond that strengthens the contractual alignment of interests between the franchise relational parties (Davies et al., 2011).

(6) Institutional theory

Institutional theory has been employed in understanding franchisee failure. As noted by Grünhagen et al. (2017), this perspective suggests that the institutional environment (regulatory, normative and cultural) can have intense effects on organizations. As Barthélemy (2011) argues, institutional theory can offer an important contribution to the understanding of franchising decisions. Combs et al. (2009) explain that franchising is becoming the institutionalized norm.

(7) Bargaining power perspective

Furthermore, bargaining power perspective has been used to study franchisee failure. According to this premise, bargaining power can affect contractual provisions – for example, franchisees can gain adequate bargaining power, or decide to use bargaining power, to influence certain provisions in their favor; bargaining power can also affect the actions taken by the franchisor that serve his/her interest at the expense of a franchisee (Argyres and Bercovitz, 2015).

A model for curbing franchisee failure

Empirical evidence on why franchisee failure occurs is concentrated around two factors:[6] (1) single influencing factors, and (2) joint influencing factors. Most studies do not distinguish whether the franchise agreement is terminated by the franchisor or franchisee (exceptions are Beales and Muris, 1995; Clarkin and Rosa, 2005; Emerson, 2016; Lim and Frazer, 2002; López-Bayón and López-Fernández, 2016; López-Fernández and López-Bayón, 2018). However, as the franchise relationship comprises mutually dependent entrepreneurs, it is important to examine both sides of the dyad (i.e., the franchisor and franchisee) (López-Fernández and López-Bayón, 2018). The drivers of franchisee failure should be examined from both parties' perspectives because a 'dual-agency' relationship exists, i.e., the franchisor and franchisee may act as principal and agent simultaneously (Grünhagen et al., 2017).[7]

(1) Single influencing factors

Prior studies demonstrate that diverse sole factors should be taken into consideration in order to curb franchisee failure.

1.1 Franchisee flexibility

Evidence from several studies demonstrate that to reduce franchisee failure, franchisors should enhance franchisee flexibility, and franchisees should create means of empowerment (such as independent franchisee associations). These studies draw mainly on agency, resource-based, transaction cost, bargaining power and relational exchange perspectives.

[6] One variable (average total investment) from Alon et al. (2015) was not included in the results of this systematic review because it is unknown whether this variable is referring to the average total investment of the franchisor and/ or franchisee. Also, the following variables (relating to franchisor characteristics) in Alon et al. (2015) were not included in the results of this systematic review because the direction, and nature, of the relationships to franchisee failure were not stated, even though the variables were found to influence the rate of franchisee failure: financial assistance, passive ownership, number of states in the U.S., terms of contract, royalty percentage and percentage distribution overseas.
[7] The results incorporate the instigator of franchisee failure, where available.

Based on U.S. data and quantitative methodology, one study (Antia et al., 2017) show the effects of *franchisor governance mechanisms* on franchisee failure. It was found that franchisor's socialization of franchisees through provision of ongoing services (e.g. central data processing and central purchasing), aimed at developing franchisees' skills to provide uniform quality offering, increases franchisee failure (Antia et al., 2017). This suggests that provision of such services might weaken franchisees' efforts to develop their own capabilities, and centralization of such services by the franchisor might weaken opportunities for local market adaptations on the part of franchisees (Antia et al., 2017). With this study based on agency perspective, the results indicate that franchisor governance mechanisms targeted towards franchisee socialization via ongoing services that augment franchisees' standardization ability can increase franchisee failure.

In another study by Beales and Muris (1995), it was reported that the percent of franchise outlets for which the geographical location of the outlets is known (and could be provided) by the franchisor (i.e. *franchisor knowledge of franchise outlet location*) leads to higher franchisee failure rate, in terms of the franchise agreement being terminated by the franchisor. This variable reflects the extent to which franchisors monitor their franchisees; franchisors who monitor more extensively are more likely to be able to report the location of their franchise outlets (Beales and Muris, 1995). The findings indicate that franchisor knowledge of franchise outlet location can have an adverse effect on franchisee failure.

The role of *franchisee empowerment* (in terms of delegation to franchisees, franchisee desire for independence, franchisor inflexibility, franchisor power, and presence of independent franchisee association) on franchisee failure was shown in six studies (Argyres and Bercovitz, 2015; Emerson, 2016; Frazer et al., 2007; López-Bayón and López-Fernández, 2016; López-Fernández and López-Bayón, 2018; Schell and McGillis, 1995). With the exception of delegation of pricing to franchisees, which produces mixed effects on franchisee failure, other aspects of delegation to franchisees that revolve around local advertising and human resource (HR), reduce franchisee failure. Drawing on agency and resource-based theories, López-Fernández and López-Bayón (2018) found that delegation of pricing to franchisees will reduce franchisee failure (in terms of the franchise agreement being terminated by the franchisee). However, it was found that delegation of pricing to franchisees will increase franchisee failure (in terms of the franchise agreement being terminated by the franchisor) (López-Bayón and López-Fernández (2016) drawing on agency theory; López-Fernández and López-Bayón (2018) drawing on agency and resource-based theories). This contrasting outcome suggests that decentralization of pricing represents significant means of reducing franchisees' discontentment and failure, and at the same time, it is a significant source of conflict for franchisors (López-Fernández and López-Bayón, 2018). The latter may be controlled through franchisor embedding internal conflict management mechanisms. With regards to delegation of local advertising decisions to franchisees, this was found to reduce franchisee failure (in terms of the franchise agreement being terminated by the franchisor) (López-Bayón and López-Fernández (2016) drawing on agency theory; López-Fernández and López-Bayón (2018) drawing on agency and resource-based theories). These suggest that the franchisor may benefit from franchisee's knowledge in local advertising campaigns (López-Fernández and López-Bayón, 2018). With regards to delegation of HR decisions to franchisees, drawing on agency theory, López-Bayón and López-Fernández (2016) found that this reduces franchisee failure (in terms of the franchise agreement being terminated by the franchisor). This suggests that decentralization of HR decisions, regarding hiring and training, to franchisees can reduce conflict (López-Bayón and López-Fernández, 2016). Frazer et al. (2007) also found that franchisee desire for greater independence influences franchisee failure (but the direction of the influence – whether positive or negative – was not specified). Schell and McGillis (1995) found that franchisor inflexibility with their operating procedures is positively associated with franchisee failure. Drawing on agency principles, Emerson (2016) reports franchisor termination of the contract with the franchisee at will, indicating that franchisor power is a reason for franchisee failure. Argyres and Bercovitz (2015), drawing on agency theory, transaction cost theory and bargaining power perspective, found that presence of independent franchisee association leads to fewer franchisee failure. This implies that independent franchisee associations are mechanisms through which franchisees are able to exercise bargaining power (Argyres and Bercovitz, 2015) that can prevent franchisee failure.[8] Overall, the findings demonstrate that franchisee empowerment can minimize franchisee failure.

Based on relational exchange perspective, one study (Frazer et al., 2012) shows that *franchisor utilization of unilateral communication processes* that focus on adherence to franchise system standards and restrictive directives (e.g. caveat on local marketing and restrictive supplier agreements) will lead to higher rates of franchisee failure.

Two studies conducted in multiple industries (Clarkin and Rosa, 2005; Frazer et al., 2012) demonstrate the mediating role of *franchisee dissatisfaction* on franchisee failure. Clarkin and Rosa (2005) found that franchisor's inflexibility to allow franchisee implementation of franchisee-identified opportunities (that were not within the terms of the franchise agreement) leads to franchisee dissatisfaction, and in turn, franchisee failure (in terms of the franchise agreement being terminated by the franchisee).[9] Supportive findings were reported in Frazer et al. (2012) where based on relational exchange perspective, it was

[8] "Independent franchisee associations are self-organized groups of franchisees belonging to the same franchise system that are not sponsored by the franchisor" (Argyres and Bercovitz, 2015: 811).

[9] This supports the findings reported above (in the section under single influencing factors) where (i) Schell and McGillis (1995) found that franchisor inflexibility with their operating procedures is positively associated with franchisee failure; (ii) Frazer et al. (2007) found that franchisee desire for greater independence influences franchisee failure (but the direction of the influence – whether positive or negative – was not specified); and (iii) López-Fernández and López-Bayón (2018) found that franchisee empowerment, in terms of delegation of pricing to franchisees, reduces franchisee failure (initiated by the franchisee).

found that lack of franchisor open communication with franchisees will increase franchisee dissatisfaction with the franchisor, which will in turn increase franchisee failure.[10]

Altogether, these studies reveal that franchisee flexibility and empowerment can decrease franchisee failure.

1.2 Brand equity

Evidence from one study shows that to curb franchisee failure, franchisors should strengthen investments in brand name. The influence of *franchisor policies to make investments in strategic resources* on franchisee failure was shown in Michael and Combs (2008). Drawing on resource-based theory, Michael and Combs (2008) found a negative relationship between franchisor investments in brand name and franchisee failure.[11]

1.3 Franchisor and franchisee deviation

The results from some studies indicate that in order to suppress franchisee failure, franchisors and franchisees should collaboratively ensure that both parties do not deviate from franchisor principles. These studies are based mainly on agency, transaction cost economics and institutional theories.

Four studies (Emerson, 2016; Grünhagen et al., 2017; Manolis et al., 1995; Winter et al., 2012) show that *franchisees' active moral hazard* (in terms of property infringement, sale of unauthorized products, quality control violations, and breach of agreements and standards) affects franchisee failure. Drawing on agency and institutional theories, Grünhagen et al.

[10] This supports earlier reported findings in the section under single influencing factors, where (i) Frazer et al. (2007) found that franchisee dissatisfaction with the franchisor is a (direct) influencing factor of franchisee failure (but the direction of the influence – whether positive or negative – was not specified); and (ii) Frazer et al. (2012) found that franchisor utilization of unilateral communication processes that focus on adherence to franchise system standards and restrictive directives will lead to higher rates of franchisee failure.

[11] This supports the earlier findings from the same study on the negative relationship in terms of franchisor investments in strategic resources (that occur through the provision of long *initial* training period for franchisees) and franchisee failure.

(2017) found that franchisees' active moral hazard can cause franchisee failure.[12] Supportive findings were reported in Winter et al. (2012), that offering non-standard products in franchise outlets increases franchise outlets' likelihood of failure.[13] This implies that franchisee accuracy in the replication of features of the franchisor's original template decreases franchise outlet's likelihood of failure (Winter et al., 2012). Drawing on transaction cost economics and agency theory, franchisee failure was attributed to quality control violations in Manolis et al. (1995).[14] Emerson (2016), drawing on agency principles, found that the following are reasons for franchisee failure (in terms of the franchise agreement being terminated by the franchisor): (1) breach of contract, failure to comply with agreement, or failure to meet performance standards, (2) failure to cure defaults, (3) failure to pay, (4) misuse of trademark and (5) violation of covenant not to compete/ competitive conduct.

Drawing on agency and institutional theories, one study (Grünhagen et al., 2017) found that *franchisors' passive moral hazard* can cause franchisee failure.[15] This suggests that franchisor deviation from franchisor principles can increase franchisee failure.

Altogether, the findings are consistent in demonstrating that franchisor and franchisee deviation from franchisor principles increases franchisee failure.

[12] *Franchisees' active moral hazard* was measured as the sum of (i) property infringement – i.e. trademark, copyrights and proprietary information – by the franchisee and (ii) sale of unauthorized products by the franchisee (Grünhagen et al., 2017).

[13] Non-standard products were measured as the percentage of revenue that franchise outlets generated from products that are not part of the original franchisor business model or product mix, i.e. not part of the franchisor template (Winter et al., 2012).

[14] These violations include sanitation problems, service issues and other improprieties outlined in the franchise agreement (Manolis et al., 1995).

[15] *Franchisors' passive moral hazard* was measured as the sum of (i) franchisors' failure to provide support to franchisees and (ii) franchisors' refusal to renew a contract as obligated (Grünhagen et al., 2017).

1.4 Franchise outlet ownership

The findings from several studies indicate that in order to lessen franchisee failure, franchisors should take into consideration different forms of franchise outlet ownership, namely multiunit franchising, franchisee active ownership, franchise outlet ownership change, minority-owned franchise outlets, and franchise outlet location. These studies are based mainly on agency and resource-based theories.

The empirical evidence shows that to curb franchisee failure, franchisors should use *multiunit franchising*. Based on U.S. data and quantitative methodology, two studies (Antia et al., 2017; Bates, 1998) show the effects of multiunit franchising on franchisee failure. It was found that franchisor's provision of incentives that allow franchisees the option of opening additional outlets reduces franchisee failure (Antia et al., 2017). Supportive findings were reported in Bates (1998), that franchisees that own and operate a mini-chain of franchise outlets (operated by employee store managers), i.e., multiunit franchisees, have low rates of franchisee failure. This may be because of the substantial industry-specific experience accrued by the franchisee (Bates, 1998). Altogether, with both studies based on agency perspective, the results indicate that franchisor targeted approach towards franchise outlet growth can minimize franchisee failure.

The findings also reveal that to reduce franchisee failure, there should be a franchisor requirement for *franchisee active ownership*. Based on agency theory, one study (Michael and Combs, 2008) found that franchisor requirements that franchisees should be active owner-managers and not passive investors (that would otherwise hire employee-managers to monitor daily operations) reduce franchisee failure.

In order to minimize franchisee failure, empirical evidence suggests that, where *franchise outlet ownership change* is required in a franchise organization, franchisors can encourage franchisees within the same franchise organization to consider opting to take on the transfer of such franchise outlet requiring ownership change. In a quantitative, U.S. based study conducted within multiple industries, Winter et al. (2012) found that franchise outlets that experienced an ownership change (i.e., the transfer of a franchise outlet by a franchisee to another franchisee within the same franchise organization) have a lower likelihood of franchisee failure.

Additionally, the findings indicate that to reduce franchisee failure, franchisors should provide additional support to *minority-owned franchise outlets*. In a quantitative, U.S. based study conducted within multiple industries, Bates (1995b) found that franchise outlets that are owned by minorities are prone to failure.

Furthermore, some studies reveal that to decrease franchisee failure, franchisors should have appropriate *franchise outlet location* (i.e., franchisors should have exclusive territory guarantees, suitable territory definitions, suitable franchise outlet locations, proximity of franchise outlets to other franchise outlets belonging to the same franchise organization, and franchise outlets location in higher per-capita income zip code areas). Based on agency theory, Michael and Combs (2008) found exclusive territory guarantees to be negatively related to franchisee failure. This is consistent with Cox and Mason (2009), drawing on agency and resource-based theories, which found that unsuitable territory definitions and unsuitable franchise outlet locations lead to franchisee failure. Similar findings were reported in Swart and Carter (1972) that bad location is the main reason for franchisee failure. In another study by Winter et al. (2012), it was found that (a focal franchise outlet's) proximity to (other) franchise outlets belonging to the same franchise organization significantly reduces the likelihood of franchisee failure (for the focal franchise outlet). This implies that proximity to franchise outlets belonging to the same franchise organization – a proxy for the competitive intensity experienced by a franchise outlet – significantly influences a focal franchise outlet's ability to remain in business (Winter et al., 2012). In the same study, it was also found that franchise outlets located in higher per-capita income zip code areas – a proxy for demand heterogeneity – have a lower likelihood of franchisee failure.

Cumulatively, these findings demonstrate how franchisors' attention to diverse types of franchise outlet ownership can diminish franchisee failure.

1.5 Franchisor and franchisee's capabilities

Various studies reveal that in order to reduce franchisee failure, franchisors should ensure that both franchise parties have appropriate capabilities, namely franchisor and franchisee experience, and franchisee training. These studies draw mainly on agency, resource-based and signalling theories.

Evidence shows that to curb franchisee failure, franchisors should take into consideration *franchisor and franchisee experience* by (i) seeking franchisees with prior experience (in the franchisor's industry), and (ii) ensuring that the franchisor has experience in franchising. In terms of (i), i.e., franchisee's prior industry experience, out of three quantitative studies (Alon et al., 2015; López-Fernández and López-Bayón, 2018; Michael and Combs, 2008), only one (López-Fernández and López-Bayón, 2018) reports opposing findings on the effects of the franchisor requiring (or placing importance on) franchisee prior experience (in the franchisor's industry) on franchisee failure. Drawing on agency and resource-based theories, López-Fernández and López-Bayón (2018) found that prior industry experience requirements in franchisees increase franchisee failure (in terms of the franchise agreement being terminated by the franchisor). As highlighted by López-Fernández and López-Bayón (2018), these results, based on negative binomial regression, were contrary to their expectations, i.e. in terms of the findings that experienced franchisees seem to lead to an increase in franchisee failure (with regards to the franchise agreement being terminated by the franchisor) ($\beta = 0.304$; $p < 10\%$). However, based on agency theory, Michael and Combs

(2008) found that prior industry experience requirements in franchisees reduce franchisee failure. These results, based on negative binomial regression, support the authors' hypothesis (β = -0.76; p < 1%). Consistent findings to Michael and Combs (2008) were reported in Alon et al. (2015), based on agency, resource scarcity and signalling theories. The modeling approach in Alon et al. (2015) was based on structural risk minimization, a data mining technique. The results indicate that, in terms of the variable representing the importance placed by franchisors on franchisee's experience in the specific industry they are entering, the relative contribution of this variable to the predictive model is 0.097. In other words, the higher the importance level placed by franchisors on franchisee's experience in the specific industry they are entering, the lower the expected failure rate. In all, the contradictory findings may be due to the differences in the country of study. Although all the three studies used quantitative methodology, the research by López-Fernández and López-Bayón (2018) was conducted in Spain, while the others (Alon et al., 2015; Michael and Combs, 2008) were conducted in the U.S. The contrary findings reported in López-Fernández and López-Bayón (2018) suggest that franchisors should manage the requirement for franchisee experience in the franchisor industry to ensure the franchisees' industry familiarity does not become problematic.

In terms of (ii), i.e. franchisor's experience in franchising, López-Fernández and López-Bayón (2018), using the same analytical approach as explained above, found that this reduces franchisee failure (in terms of the franchise agreement being terminated by the franchisor (β = −0.870; p < 10%) and the franchisee (β = −1.830; p < 5%)), drawing on agency and resource-based theories. Without capturing whether the franchise agreement was terminated by the franchisor or the franchisee, consistent findings were reported in Alon et al. (2015), based on the same analytical approach as explained above; using resource scarcity and signalling theories, it was found that longer franchisor experience in franchising correlates with lower rate of franchisee failure. The results indicate that, in terms of the variable representing franchisor experience, the relative contribution of this variable to the predictive model is 0.076. Further consistent results were reported in Holmberg and Morgan (2007), where it was partially confirmed that the rates of franchisee failure decrease as franchisor experience in franchising increases; more specifically, it was found that franchisor's length of time in franchising does not translate consistently to lower franchisee failure rates until the franchisor has 12 or more years of franchising experience. Alon et al. (2015) support this length of years; it was reported that a shorter experience (i.e., fewer than 12 years) correlates with higher rate of franchisee failure. These findings indicate number of years of franchisor experience that may be crucial to acquire to reduce franchisee failure, supplementing Holmberg and Morgan's (2003) study which found that the length of time the franchisor has been in franchising does not produce any patterns/ trends in rates of franchisee failure. The findings also complement Holmberg and Morgan's (2004), which suggest that for franchisors, being in the franchising business for more years seem to translate into lower franchisee failure rates, but the pattern of decline in franchisee failure rates is somewhat mixed (e.g. franchisee failure rates rise in some years in the franchisor category where they have had 12 or more years of franchising experience). This mixed pattern may be due to the differences in the sources and types of data utilized in the studies. Although Holmberg and Morgan (2003, 2004, 2007) employed longitudinal data, the 2007 study was based on several countries (U.S., U.K. and other European countries), while the 2003 and 2004 studies were based on the U.S. The study by López-Fernández and López-Bayón (2018) was based on Spanish data from a combination of mail survey and two main professional franchise guides. The study by Alon et al. (2015) was based on a combination of cross-sectional and longitudinal datasets from the U.S. Cumulatively, these suggest that the use of comparable data sources and types may minimize the generation of mixed findings on the influence of franchisor's experience in franchising on franchisee failure. Overall, the results about franchisor experience in franchising suggest that learning effects in chain management are useful to both franchisors and franchisees to prevent serious conflicts with their respective partners (López-Fernández and López-Bayón, 2018).

Evidence shows that to curb franchisee failure, franchisors should pay attention to *franchisee training* by having a long 'initial' training period for franchisees, and complementing this with a short 'annual' training period. Based on agency and resource-based theories, a quantitative study by López-Fernández and López-Bayón (2018) found that franchisor requirement that franchisees must undergo ongoing training reduces franchisee failure (in terms of the franchise agreement being terminated by the franchisee). This suggests that ongoing training increases the level of socialization and human capital development of franchisees, thereby increasing their switching costs associated with premature termination of the franchise agreement (López-Fernández and López-Bayón, 2018). Drawing on resource-based theory, another quantitative study by Michael and Comb (2008) found that franchisor investments in strategic resources, which occur through provision of long 'initial' training period for franchisees, lead to decline in franchisee failure. Based on resource-based explanations, another quantitative study by López-Bayón and López-Fernández (2016) found that long 'annual' training period for franchisees significantly increases franchisee failure (in terms of the franchise agreement being terminated by the franchisor). This suggests that transfer of franchisor specific knowledge is problematic for the franchisor-franchisee relationship, i.e., the requirement to attend training sessions to learn about tacit business practices of the franchisor may be difficult, or may be viewed as unwanted monitoring by franchisees, leading to dissatisfaction and conflict (López-Bayón and López-Fernández, 2016). Altogether, the results suggest that agency and resource-based theories provide complementary explanations for franchisee failure (Michael and Combs, 2008), in relation to the influence of franchisee training. Although ongoing training for franchisees is important for reducing franchisee failure, when its duration is long, it is ineffective since it increases franchisee failure. Rather, starting with lengthy initial training period is more effective in decreasing franchisee failure.

1.6 Franchise structure

The empirical evidence indicates that in order to minimize franchisee failure, franchisors and franchisees should take into consideration different aspects of the franchise structure, namely franchisee initial investments, royalty rates, contract duration and number of outlets in the franchise organization. These studies draw mainly on agency, resource-based and signalling theories.

In terms of *franchisee initial investments*, the findings demonstrate that to curb franchisee failure, it is better for franchisees to avoid purchasing franchise outlets with low and extremely high levels of franchisee's initial investments, and it is better for franchisors to avoid both of these levels as well when setting franchisees' initial investments in their franchise systems. Drawing on agency and resource-based theories, López-Fernández and López-Bayón (2018) found that franchisee failure (in terms of the franchise agreement being terminated by the franchisee) reduces as the level of franchisee's initial investments required to open an outlet rises. This suggests that it is not in the franchisee's self-interest to terminate the franchise relationship prematurely when they have to commit large initial investments (López-Fernández and López-Bayón, 2018). This is corroborated in Frazer and Winzar (2005), where the results suggest that franchise systems with higher franchisee start-up costs are less likely to lose franchisees due to franchisee failure. Holmberg and Morgan (2003) provide supportive findings, focusing on different categories of franchisee upfront investment (comprising franchisee fee and initial investment). Specifically, it was found that the lowest category of franchisee upfront investment (under US $25,000 category) generally has higher rates of franchisee failure than the middle category of franchisee upfront investment (US $75,000–499,000 category), while rates of franchisee failure fall in the largest category of franchisee upfront investment (i.e. in most of the US $750,000–999,999 category) (with the exception of the rise in rates of franchisee failure in the following largest categories: most of the US $500,000–749,000 categories, and most of the over US $1 million category). These are partially supported in Holmberg and Morgan (2004), which found that in many instances, franchise systems with the lowest (under US $50,000) and the highest (over US $750,000) non-real estate initial investment have higher franchisee failure rates (with regards to the retail sector, the focus of this study); these suggest that higher franchisee failure rates occur in both low- and high-end franchisee investment categories. Frazer et al. (2007) also found that franchise fees influence franchisee failure (but the direction of the influence – whether positive or negative – was not specified). Cumulatively, the findings suggest that having moderate levels of franchisee's initial investments may be vital to curbing franchisee failure.

Additionally, the findings demonstrate that to decrease franchisee failure, franchisors should have low *royalty rates*. Based on agency theory, one study (Michael and Combs, 2008) found royalty rates (a factor relating to franchisor policies to obtain returns on the franchisor's investments) to be positively related to franchisee failure. This indicate that high royalty rates can increase franchisee failure.

The empirical evidence reveals that to suppress franchisee failure, franchisors can use long-term *contract duration* in conjunction with mechanisms to manage the franchise relationship for both parties. The U.S. study by Beales and Muris (1995), using quantitative methods, reports that the fraction of long-term contracts (contracts of 15 years or more) is positively correlated with rate of franchisee failure, in terms of the franchise agreement being terminated by the franchisor. However, opposite findings were reported in the same study by

Beales and Muris (1995) in relation to franchisee failure, in terms of the franchise agreement being terminated by the franchisee. Specifically, it was found that industries with more long-term contracts (a measure of franchisee security within the franchise organization) have lower rate of franchisee failure, in terms of the franchise agreement being terminated by franchisees. This implies that industries with greater franchisee security have lower rate of franchisee failure (Beales and Muris, 1995). The mixed findings within this study suggest that long contract duration have varied effects on the franchisor-franchisee relationship, depending on the respective franchise party – i.e., a positive effect for the franchisee in terms of reducing their likelihood of terminating the franchise agreement, but a negative effect for the franchisor in terms of increasing their likelihood of terminating the franchise agreement. To mitigate these discrepancies, the findings imply that franchisors can use long-term contract duration together with appropriate franchisor-franchisee relationship management strategies.

Furthermore, the findings indicate that to minimize franchisee failure, franchisors should have at least a moderate *number of outlets in the franchise organization* as explained below, with regards to: number of franchise outlets (within the franchise system), growth in number of franchise outlets (within the franchise system), number of company-owned outlets, and growth rate of franchisor's total outlets.

Four studies (Frazer and Winzar, 2005; Holmberg and Morgan, 2003, 2004, 2007) show the effects of 'number of franchise outlets (within the franchise system)' on franchisee failure. Frazer and Winzar (2005), using multiple regression, found that number of franchise outlets is positively related to franchisee failure, suggesting that franchise systems with large number of franchisees will be more susceptible to franchisee failure because of their size (β = 0.659; p < 1%). Consistent results were reported in Holmberg and Morgan (2007), that the rates of franchisee failure increases (across most of the years studied) as franchise systems have more franchise outlets (i.e. as franchisors move from lower franchise outlet categories to the 101-500 franchise outlet category). However, Holmberg and Morgan (2007) found that as franchisors move from the 101-500 franchise outlet category to the 501-and-over franchise outlet category, there is decreased rates of franchisee failure across all the years studied. These suggest that franchisee failure rates do not decrease consistently as franchise systems have more franchise outlets (Holmberg and Morgan, 2004 report supportive findings as the foregoing), until the 501-and-over franchise outlet category is reached (Holmberg and Morgan, 2007). Consistent results were reported in Holmberg and Morgan (2003), that although there is a stable pattern or slight decrease in rate of franchisee failure when a franchisor moves from the 51-100 franchise outlet category to the 101-500 franchise outlet category, there is no sharp decrease. A sharper decline in rate of franchisee failure occurs as a franchisor moves from the 101-500 franchise outlet category to the 501-and-over franchise outlet category (Holmberg and Morgan, 2003). Holmberg and Morgan (2003, 2007) suggest that noticeable and consistent decreases in franchisee failure rates are found in franchise systems that have very large number of franchise outlets (i.e. as franchisors move into the 501-and-over franchise outlet category). Holmberg and Morgan's (2003, 2007) results demonstrate that in examining the influence of size of franchise outlets on franchisee failure, it is important to analyse the effect of franchise outlet categories (unlike Frazer and Winzar, 2005). The discrepancy in the findings in Holmberg and Morgan (2003, 2004, 2007) and Frazer and Winzar (2005) could also be due to the definitional differences of franchisee failure employed in the studies. Frazer and Winzar (2005) use terminologies such as conversion to company-owned units, while Holmberg and Morgan (2003, 2004, 2007) utilize terminologies such as franchisee turnover. These suggest that the use of similar definitions of franchisee failure may produce more comparable findings.

The effects of ‘growth in number of franchise outlets (within the franchise system)’ on franchisee failure was shown in four studies (Beales and Muris, 1995; Holmberg and Morgan, 2003, 2004, 2007). Based on analysis in multiple industries, with respect to rate of franchise system’s expansion of franchise outlets, Holmberg and Morgan (2003) found that rates of franchisee failure are higher for franchise systems with negative percentage growth in number of franchise outlets, than for franchise systems with some positive percentage growth in number of franchise outlets. Likewise, based on analysis done by rate of franchise system’s expansion of franchise outlets, Holmberg and Morgan (2004) found that franchise systems with negative rate of growth in franchise outlets almost always have the highest rates of franchisee failure (with respect to the retail sector, the focus of the study). But franchise systems with zero or some positive rate of growth in franchise outlets have a mixed pattern of rates of franchisee failure (i.e. in some years there are low rates of franchisee failure in franchise systems that have positive rate of growth in franchise outlets, but high rates of franchisee failure also occur in franchise systems that have positive rate of growth in franchise outlets). Similarly, Holmberg and Morgan (2007) found that rates of franchisee failure are generally higher for franchise systems that have no net growth in franchise outlets, based on analysis in multiple industries. Beales and Muris (1995) found supportive findings that growth in number of franchise outlets leads to lower rate of franchisee failure, in terms of the franchise agreement being terminated by the franchisor, based on analysis in multiple industries. Cumulatively, the results in terms of growth in number of franchise outlets within the franchise system (and in relation to number of franchise outlets within the franchise system, reported earlier above) suggest that little or no growth in franchise outlets, and certain level of rapid growth in franchise outlets, indicate risk of franchisee failure (Holmberg and Morgan, 2007).

Four U.S. studies (Alon et al., 2015; Beales and Muris, 1995; Holmberg and Morgan, 2003, 2004) show the influence of ‘number of company-owned outlets’ on franchisee failure. Based on agency, resource scarcity and signalling theories, Alon et al. (2015) found that there is a non-linear relationship between rate of franchisee failure and number of company-owned outlets, i.e., rate of franchisee failure is at its highest with very low percentage of company-owned outlets and steadily reduces till company-owned outlets reach about 9% and then increases back for percentages between 9% and 15% to finally stabilize after 15%. This is consistent with Holmberg and Morgan (2003), which found that franchisors with no company-owned outlets had the highest rates of franchisee failure (for 3 of the 4 years studied), while franchisors with (11 or more) company-owned outlets have some reduction in rates of franchisee failure, but there are no consistent trends in rates of franchisee failure as number of company-owned outlets increase. Supportive findings were reported in Holmberg and Morgan (2004), which suggest that a minimal number of company-owned outlets is important for franchisee success and mitigation of franchisee failure, but the minimum number of company-owned outlets required to reduce franchisee failure rates varies for different industry categories. Beales and Muris (1995) provide supportive findings, that the percent of company-owned outlets is negatively related to rate of franchisee failure, in terms of the franchise agreement being terminated by the franchisor. Contrariwise, it was found that the percent of company-owned outlets is positively related to franchisee failure, in terms of the franchise agreement being terminated by the franchisee (Beales and Muris, 1995). Again, the mixed findings in this study suggest that the percent of company-owned outlets has varied effects on the franchisor-franchisee relationship, depending on the respective franchise party – i.e., a positive effect for the franchisor in terms of reducing their likelihood of terminating the franchise agreement, but a negative effect for the franchisee in terms of increasing their likelihood of terminating the franchise agreement. To mitigate these inconsistencies, the findings imply that franchisors can have at least moderate number of company-owned outlets together with appropriate franchisor-franchisee relationship management strategies. Overall, the findings indicate that having moderate number of company-owned outlets can help in curbing franchisee failure.

Using resource scarcity and signalling theories, one study (Alon et al., 2015) found that high 'growth rate of franchisor's total outlets' correlates with low rate of franchisee failure. Altogether, this result and earlier findings reported above (with regards to number of franchise outlets within the franchise system, growth in number of franchise outlets within the franchise system, and number of company-owned outlets), indicate that having at least moderate level of outlets can curtail the likelihood of franchisee failure.

1.7 Franchisor and franchisee relationship

Some studies reveal two aspects of the franchisor and franchisee relationship, which are crucial to curbing franchisee failure, namely the franchisor-franchisee relationship quality, and franchisor and franchisee commitment. These studies were based mainly on agency and social exchange theories.

With regards to *franchisor-franchisee relationship quality*, the empirical evidence suggests that, to reduce franchisee failure, franchisors should create mechanisms for managing franchisor-franchisee disagreement, conflict and ineffective relationship.

Three studies (Frazer et al., 2007; Frazer and Winzar, 2005; Wright and Grace, 2011) conducted in Australia and New Zealand report findings on how the quality of the franchisor-franchisee relationship affects franchisee failure. Frazer et al. (2007) found that franchisee dissatisfaction with the franchisor influences franchisee failure (but the direction of the influence – whether positive or negative – was not specified). However, Frazer and Winzar (2005) found that level of conflict in the franchisor-franchisee relationship is positively related to franchisee failure. Based on agency theory, Wright and Grace (2011) found that lack of an effective franchisor-franchisee relationship positively influences the likelihood of franchisee failure. These imply that franchisees may exit their franchise systems when there is no effective franchisor-franchisee relationship (Wright and Grace, 2011).

Additionally, four studies (Brand et al., 2016; Croonen, 2010; Croonen and Brand, 2015; Schell and McGillis, 1995) conducted in the Netherlands and Canada, based on quantitative as well as qualitative methods, provide consistent findings that franchisor-initiated changes are positively associated with franchisee failure. These imply that franchisees exit franchise systems due to franchisee disagreement with franchisor-initiated changes (Brand et al., 2016; Croonen, 2010; Croonen and Brand, 2015).

In terms of *franchisor and franchisee commitment,* the empirical evidence suggests that, to curb franchisee failure, both franchise parties should have commitment to the franchise relationship. Two studies (Beales and Muris, 1995; Meek et al., 2011) undertaken in multiple industries in the U.S using quantitative methods, examined this research area. Beales and Muris (1995) found that sales (i.e. purchase of supplies) from the franchisor to franchisee (a measure of franchisor commitment to having franchisees) is negatively related to franchisee failure, in terms of the franchise agreement being terminated by the franchisee. This implies that the greater the franchisor's sales to the franchisee, the less the franchisee failure (Beales and Muris, 1995). Based on social exchange theory, Meek et al. (2011) found that franchisee continuance commitment to the franchise is negatively related to franchisee failure. These findings are consistent in showing that commitment from both franchise parties minimizes franchisee failure.

1.8 Franchise partner selection

The empirical evidence indicates that two aspects of the franchise partner selection – namely franchisor selection and earnings claim – are central to curbing franchisee failure. The studies draw mainly on agency, institutional and signalling theories.

In terms of *franchisor selection*, the findings indicate that, to suppress franchisee failure, franchisors should ensure that they disclose full information necessary to enable potential franchisees make fair choices when selecting the franchisor. Drawing on agency and institutional theories, one study (Grünhagen et al., 2017) found that franchisor adverse selection can cause franchisee failure.[16]

With regards to *earnings claims*, using agency and signalling theories, one quantitative U.S. study (Alon et al., 2015) found that lack of earnings claims by franchisors correlates with higher rate of franchisee failure.[17] This suggests that franchisors who claim earnings are signalling the credibility of their operations through less risky investment opportunities (Alon et al., 2015). The findings imply that franchisors can help prospective franchisees and lower the likelihood of franchisee failure if franchisors are open and transparent about their earnings, franchisee earnings and failure cases (Alon et al., 2015).

1.9 External environment

The findings indicate that the external environment – namely, industries of franchisees and franchise laws, and country of origin of the franchise – should be considered by the franchise parties in order to curb franchisee failure. The studies were based mainly on agency, resource scarcity, transaction cost and bargaining power perspectives.

---

[16] *Franchisor adverse selection* was measured as an inappropriate franchisor being selected by the franchisee due to the sum of (i) franchisor information misrepresentation and (ii) franchisor information omission in the disclosure documents (Grünhagen et al., 2017).

[17] Earnings claims (i.e., the revelation of information regarding potential profits) are a signal used by franchisors to attract franchisees (Michael, 2009).

In terms of *industries of franchisees and franchise laws*, the empirical evidence demonstrates that to curtail franchisee failure, franchisors operating in the higher risk industry categories and in states with franchise laws should offer additional support to protect franchisees from any potential adverse effects that might arise from their industry categories and franchise laws. The influence of industries of franchisees and franchise laws on franchisee failure was reported in eight studies (Alon et al., 2015; Argyres and Bercovitz, 2015; Bates, 1995a; Beales and Muris, 1995; Holmberg and Morgan, 2003, 2004, 2007; Lim and Frazer, 2002). Categorizing industry type into groups, Alon et al. (2015) found that this influences franchisee failure.[18] Holmberg and Morgan (2007) also found that franchisee failure rates vary substantially across industry categories. Consistent results were reported in Holmberg and Morgan (2003), where different franchisee failure rates were found across different industry categories. Supportive results were reported in Holmberg and Morgan (2004), that rates of franchisee failure in 'food retail' industry typically exceed rates of franchisee failure in 'non-food retail' industry. Bates (1995a) reported consistent findings, that franchise outlets that are young and that are in the retail industry, are much more likely to fail than young franchisees operating in non-retailing industry. These suggest that overcrowding in the retail franchise niches generates higher discontinuance rates for franchisees in this industry (Bates, 1995a). Beales and Muris (1995) reported consistent results, that industry failure rate (of franchisees) is positively correlated with rate of franchisee failure, in terms of the franchise agreement being terminated by the franchisor.

Furthermore, Beales and Muris (1995) revealed that industries that have more franchise outlets located in states that give franchisees the right to 'cure' (i.e. industries with state laws

[18] Alon et al. (2015) found that industry type influences franchisee failure, i.e., by categorizing industry type into 3 groups, it was found that: (i) *Group 1* is the riskiest. This comprises automotive, computer products and services, home décor and design, pet-related products and services, printing, retail food, and sports and recreation; (ii) *Group 2* is the next risk group. This comprises baked goods, beauty-related products, building and construction, child-related, clothing and accessories, education-related, fast-food restaurants, frozen desserts, health and fitness, real estate, sit-down restaurants, retail stores, and general services; (iii) *Group 3* is the lowest risk group. This comprises business-related services, lodging, and maintenance services.

designed to protect franchisees) have significantly higher franchisee failure rates, in terms of the franchise agreement being terminated by the franchisor.[19] Similar findings are reported in Argyres and Bercovitz (2015), where, drawing on agency theory, transaction cost theory and bargaining power perspective, it was found that state laws (i.e. laws that regulate the franchisor's termination ability) lead to more franchisee failure. This indicates that more franchisee failure (i.e. more terminations of the franchisor-franchisee relationship by the franchisor) occurs in states in which it is legally more difficult for the franchisor to terminate the franchisor-franchisee relationship (Argyres and Bercovitz, 2015). In other words, state laws do not necessarily result in the planned effect. Argyres and Bercovitz (2015) note that this is an unintentional outcome of state laws. Contrariwise, Beales and Muris (1995) found that industries where there are more franchise outlets in states in which franchisees have the right to 'cure' any problems, and in states where franchisors must have good cause for termination without a right for franchisees to 'cure' any problems, have significantly lower franchisee failure rates, in terms of the franchise agreement being terminated by the franchisee. This implies that franchisees in states with laws designed to protect them from arbitrary termination are likely to feel more secure, and hence, less likely to fail by initiating the end of the franchise relationship, i.e. state regulation of franchise terminations should influence franchisee security (Beales and Muris, 1995). Supportive findings are reported in Lim and Frazer (2002), that there is decrease in franchisee failure initiated by both franchisors and franchisees (i.e., decrease in the proportion of termination of franchise agreements), following introduction of the (Australian) Franchising Code of Conduct.[20]

[19] State laws prohibit franchisor terminations unless the franchisor has 'cause' for the termination; some of the states that have these laws also give the franchisee a right to 'cure' any alleged non-performance that may be a cause for the proposed termination by the franchisor (Beales and Muris, 1995).

[20] The (Australian) Franchising Code of Conduct is mandatory and was introduced in Australia on 1 July 1998 to regulate the franchising sector, i.e., it is a franchising regulation where the implementation of the Code is expected to improve franchising relationships (Lim and Frazer, 2002). As Lim and Frazer (2002) note, the purpose of the Code is to provide assistance to franchisees and franchisors in order to make an informed decision before entering into a franchise agreement, and to offer a framework for dispute resolution.

Overall, the findings are consistent in demonstrating that franchisees' industry categories and industry factors as well as franchise laws influence franchisee failure.

Furthermore, the findings demonstrate that to decrease franchisee failure, prospective franchisees should assess how the *country of origin of the franchise* might affect the risk of franchisee failure prior to joining franchise organizations. Based on agency and resource scarcity theories, one quantitative study (Falbe and Welsh, 1998) found that country of origin of the franchise affects franchisee failure (i.e. there are significant differences in franchisee failure based on the franchise country of origin). However, the direction of the impact (whether positive or negative) was not stated.

1.10 Franchise system performance

The findings reveal that franchise system performance – in relation to franchisee performance, as well as success, failure and difficulties of the franchise system and the franchisor – are important factors to consider in order to curb franchisee failure. These studies draw mainly on agency and resource-based theories.

To reduce franchisee failure, the empirical evidence indicates that franchisees should ensure that they have good *franchisee performance*. Four studies (Cox and Mason, 2009; Holmberg and Morgan, 2007; Swart and Carter, 1972; Winter et al., 2012) show the influence of factors relating to franchisee performance on franchisee failure. Drawing on agency and resource-based theories, Cox and Mason (2009) found that when franchisees are not capable of operating franchise outlets that can generate good performance it causes franchisee failure. Similar findings were reported in Swart and Carter (1972), showing that the following are reasons for franchisee failure: (i) weak motivation to persevere on the part of franchisee and (ii) weak planning, organizing and control by franchisees. Holmberg and Morgan's (2007) complementary results suggest that poor franchisee performance may increase the likelihood of franchisee failure. Winter et al. (2012) report supportive findings, that franchise outlets of greater size (measured as total revenue of each franchise outlet on monthly basis) have lower likelihood of franchisee failure. Altogether, the findings are consistent in showing that good franchisee performance is vital for curbing franchisee failure.

In order to curb franchisee failure, by considering *success, failure and difficulties of the franchise system and the franchisor,* the findings demonstrate that franchisors of successful franchise systems should manage this positive outcome to ensure that it does not have a counterproductive effect on franchisees, and franchisors should also mitigate both the likelihood of franchisor and franchisee failure as well as financial difficulties within franchise chains. Three quantitative studies conducted in the U.S. and Australia (Beales and Muris, 1995; Buchan et al., 2015; Swart and Carter, 1972) revealed that experiences of success, failure and difficulties of the franchise system and the franchisor influence franchisee failure. Beales and Muris (1995) found that growth in sales per franchise outlet (a measure of success of the franchise system) is positively related to franchisee failure, in terms of the franchise agreement being terminated by the franchisee. Furthermore, Beales and Muris (1995) found that failure rate (of franchisees) in the system (a measure of success of the franchise system) is positively related to franchisee failure, in terms of the franchise agreement being terminated by the franchisee. This implies that the greater the failure rate (of franchisees) in the system, the more likely that other franchisees will fail by abandoning the system through termination by the focal franchisee (Beales and Muris, 1995). Buchan et al. (2015) reported complementary results, that franchisor failure positively influences franchisee failure, i.e. the failure of the franchisor's business leads to the loss of the franchise by franchisees. Swart and Carter (1972) found that difficulties in obtaining continual financial credit is a reason for franchisee failure, but the study does not specify whether the difficulties referred to, are those encountered by franchisors and/ or franchisees. Altogether, the findings demonstrate that both current success and failure as well as difficulties within franchise chains can lead to franchisee failure.

(2) Joint influencing factors

In addition to the single influencing factors discussed above, various studies indicate that there are several interacting factors that should be taken into consideration to curb franchisee failure, namely combinations of (a) franchisee selection and franchisee's standardization ability, (b) multiunit franchising and plural form franchising, (c) plural form franchising and royalty rate, (d) older and larger franchise systems, (e) older, larger and more dispersed franchise systems, (f) franchisee autonomy in product assortment and franchisor's brand name, (g) franchisee autonomy in outlet decoration and franchisor's brand name, (h) franchisee adverse selection and franchise law, and (i) franchisee deviation and franchise law.

Three quantitative studies conducted in Australia and the U.S. (Antia et al., 2017; Frazer, 2001; Frazer and Terry, 2002) show the joint effects of different factors on franchisee failure. Drawing on agency perspective, Antia et al. (2017) demonstrate the effects of three sets of franchisor governance mechanisms on franchisee failure. First, it was found that franchisor's reliance on both selection (by qualifying potential franchisees based on franchisor criteria) and socialization of franchisees (through provision of ongoing services, aimed at developing franchisees' skills to provide uniform quality offering) reduces franchisee failure (Antia et al., 2017).[21] Second, it was found that franchisor's reliance on both incentives (that allow franchisees the option of opening additional outlets) and monitoring (through franchisor reliance on dual distribution, also known as 'plural form', i.e. existence of company-owned and franchise outlets) reduces franchisee failure (Antia et al.,

[21] This suggests that franchisors can use the foregoing governance mechanisms effectively in combination with each other, to offset the negative effects on franchisee failure attributable to sole use of franchisor's socialization of franchisees through provision of ongoing services, reported earlier in the section on single influencing factors (in Antia et al., 2017).

2017). Third, it was found that franchisor's reliance on both monitoring (as defined above) and higher royalty rate reduces franchisee failure (Antia et al., 2017).[22]

Frazer (2001) found that the degree of franchisee failure is higher, the greater the stage of the franchise lifecycle.[23] This means that older and larger franchises are more likely to suffer problems between the franchisor and franchisees that will lead to conversion of previously franchised outlets to either company-owned, independently operated or closed outlets (Frazer, 2001). Supportive findings were reported in Frazer and Terry (2002), that franchisee failure is more likely to occur when franchisors have been franchising longer, are larger and more widely dispersed. These findings suggest that franchisors with older, larger and more widely dispersed franchise systems should offer additional support to their franchisees to mitigate potential problems between both franchise parties that can lead to franchisee failure.

Two quantitative studies conducted in the U.S. and Spain (Grünhagen et al., 2017; López-Bayón and López-Fernández, 2016) show the influence of two interacting factors – franchisor's brand name and franchise laws – on franchisee failure. Drawing on agency theory and resource-based explanations, López-Bayón and López-Fernández (2016) found that the value of the franchisor's brand name moderates the relationship between (i) franchisee autonomy in product assortment and franchisee failure (in terms of the franchise agreement being terminated by the franchisor), and (ii) franchisee autonomy in outlet decoration and franchisee failure (in terms of the franchise agreement being terminated by the franchisor). These suggest that as the franchise organization becomes larger, differences in market conditions make local marketing adaptations more advisable in product assortment

[22] This suggests that franchisors can use both foregoing governance mechanisms simultaneously to counter the negative effect on franchisee failure, which can occur due to the single use of high royalty rate, reported earlier in the section on single influencing factors (in Michael and Combs, 2008).

[23] The stage of the franchise lifecycle was measured by a set of indicators, namely: (1) number of franchised and company-owned outlets, and (2) number of years operating as a business and franchising.

and decoration decisions, i.e., only larger chains have lower franchisee failure (in terms of the franchise agreement being terminated by the franchisor) as a result of franchisee autonomy in product assortment and decoration decisions (López-Bayón and López-Fernández, 2016).[24] Cumulatively, the findings in terms of the interacting effects of franchisee autonomy in product assortment and franchisor's brand name demonstrate that in order to minimize franchisee failure, franchisors of larger franchise chains should grant franchisee autonomy in product assortment. Similarly, cumulatively, the findings in terms of the interacting effects of franchisee autonomy in outlet decoration and franchisor's brand name demonstrate that in order to reduce franchisee failure, franchisors of larger franchise chains should grant franchisee autonomy in decoration decisions.

Grünhagen et al. (2017), drawing on agency and institutional theories, found that the presence of franchise law (i.e. registration law) increases the positive influence of franchisee adverse selection on franchisee failure.[25] This suggests that franchisors may intend to "demonstrate their strong will to reinforce their quality standards through disclosure documents once they found that franchisees were inadequate at operating the outlets with respect to the expected standards" (Grünhagen et al., 2017: 148).[26]

Furthermore, drawing on agency and institutional theories, Grünhagen et al. (2017) found that the presence of franchise law (i.e. relationship law) weakens the positive influence

[24] This is consistent with the earlier findings reported above, where Michael and Combs (2008) show that franchisor investments in brand name is a single influencing factor that reduces franchisee failure.

[25] Registration law was measured in terms of whether the state (in the U.S.) in which each litigation was filed was a state under a registration law regime (Grünhagen et al., 2017).

Registration law is a franchise-related legislation, where each registration-law state requires franchisors to file franchise disclosure documents (FDDs) with the state's regulatory authorities before they can sell franchises to prospective franchisees in the state (Grünhagen et al., 2017).

Franchise disclosure documents (FDDs) were formerly known as uniform franchise offering circulars (UFOCs) (Antia et al., 2013).

[26] Franchisee adverse selection was measured as inappropriate selection of franchisee (by the franchisor) due to (i) franchisee information misrepresentation before the contract was signed and (ii) franchisee incapability of maintaining daily operations (Grünhagen et al., 2017).

of franchisees' passive moral hazard on franchisee failure.[27] These suggest that in the presence of relationship law, the franchisor-franchisee relationship is less likely to be terminated post-litigation, i.e. franchisees are less likely to fail following litigation, with regards to the impact of franchisees' passive moral hazard on franchisee failure (Grünhagen et al., 2017).[28] These findings, with regards to the interacting effects of franchisee deviation and franchise law, demonstrate that in the presence of relationship law, franchisors should manage the franchise relationship post-litigation in order to mitigate the likelihood of franchisee failure.

Discussion and conclusion

Termination, the end of a franchise before the specified contract term has lapsed, is the most significant event in franchising (Emerson, 2016). Premature termination of the franchise contract by the franchisor may signal poor franchisee performance, and the end of a serious conflict of interest between the franchisor and franchisee (López-Bayón and López-Fernández, 2016). Most franchise contracts provide the franchisor with the right to terminate the franchise relationship if the franchisee fails to perform (Argyres and Bercovitz, 2015). However, research on franchisee failure is fragmented; there are inconsistencies on its causes and confounding knowledge on how it can be minimized (López-Fernández and López-Bayón, 2018). This review shows multiple factors, and associated interactions, that contribute to franchisee failure, fundamental to curbing its occurrence.

[27] Relationship law was measured in terms of whether the state (in the U.S.) in which each litigation was filed was a state under a relationship law regime (Grünhagen et al., 2017).

As noted by Grünhagen et al. (2017), relationship law is enforced in many states in the U.S. to protect a franchisee from falling victim to arbitrary or baseless termination of the franchise agreement (by the franchisor); relationship law requires franchisors to have sufficiently good cause before terminating franchisees.

[28] Franchisees' passive moral hazard was measured as franchisees avoiding responsibilities and not fulfilling their obligations, i.e. the sum of (i) franchisees avoiding to pay fees, and (ii) franchisees shirking responsibilities in operating franchise outlets (Grünhagen et al., 2017).

Research implications

Since the risk of business failure is difficult to measure, it has rarely been directly addressed in the empirical literature on franchising (Lanchimba et al., 2018). Evidence from this review reveals that high risks of franchisee failure are attributable to a broad range of factors, which draw mainly on the agency, resource-based, transaction cost, relational exchange, institutional and signalling theoretical perspectives. Cumulatively, these indicate that low levels of franchisor resources, as well as the franchisor's standardization and restrictive processes, together with high and low levels of franchisee resources, and an institutional environment that regulates the franchisor's termination ability, can signal high risks of franchisee failure.

Furthermore, the findings are important for understanding franchisee performance, a grey area due to the hybrid nature of the franchisor-franchisee relationship. Survival and failure rates are the traditional approaches to performance measurement in the franchising literature (Kacker et al., 2016). Evidence from this review demonstrates that franchisees' survival is influenced by multiple factors, which draw mainly on the agency, resource-based, institutional and signalling theoretical perspectives. Overall, these indicate that the strength of the amassed resources of the franchisor, and an institutional environment that is supportive of franchise relations, can signal chances of franchisee survival. These findings imply that augmenting franchisor resources to reduce franchisee failure can encompass strengthening the strategic resources, such as the brand name and the length of the initial training period for franchisees (Michael and Combs, 2008). Additionally, the findings imply that the institutional environment for franchising can be strengthened through careful introduction of franchise laws that will be effective in ensuring secure franchise partnerships (Beales and Muris, 1995). The impact of the franchise laws can also be monitored to ensure they are achieving the anticipated effects rather than the opposite outcome (Argyres and Bercovitz, 2015).

This review offers important implications for franchisee autonomy. There is no consensus on whether autonomy by franchisees are desirable due to the perception of franchising as a highly standardized business model, where franchisors seek to ensure uniform replication of operations across franchise chains (Dada and Watson, 2017). Dada (2018) found that although franchisee autonomy may conflict with the standardization requirement in franchise chains, its occurrence is inevitable. Collectively, the findings from this review – based on agency, resource-based, transaction cost and bargaining power theoretical perspectives – imply that enabling autonomy amongst franchisees unleashes know-how that would have otherwise been restricted, thereby influencing franchisee success. These findings cumulatively indicate that franchisee empowerment can reduce franchisee failure, and franchisors can introduce conflict mitigation mechanisms to manage franchisee autonomy.

Practitioner implications

Despite the popularity of franchising, not all countries have franchise regulations (exceptions include the U.S. and Australia). Where regulations exist, legislation can be ambiguous to the extent that knowing how to comply would be impossible (Zwisler, 2019). Given the evidence from this review, which indicate that regulations can lead to both high and low franchisee failure rates, the findings imply that more needs to be done in terms of laws to ensure stability of franchise businesses, where stronger institutional contexts can be maintained.

The findings have implications for franchisors in terms of creating successful organizational cultures. While the essence of franchising is on fostering uniformity, caution should be exercised to ensure that restrictions of standardization are not counterproductive for franchisees, as standardization is found to be associated with more franchisee failure. This review also has insights for franchisee recruitment, in developing expectations of an ideal franchisee (such as determining whether the selection of franchisees with prior experience in the franchisor's industry is of relevance to the franchise business), and making decisions about the *ex ante* declarations that can be made available to prospective franchisees. In addition, the results are beneficial for choosing franchisor support structures that should be offered to franchisees (such as encouraging franchisee active ownership, assisting minority franchisees, and not just providing ongoing franchisee training but establishing appropriate length of necessary training).

Whilst there are franchisees that operate outlets on a large scale, franchisees are also small business operators within franchise organizations. The empirical evidence reported in this systematic literature review provides implications for large and small size franchisees. To avoid franchisee failure, both types of franchisees can propose and explore means of franchisee empowerment with the franchisor, such as opportunities for independent franchisee associations, pricing decentralization, and exploitation of new franchisee initiatives. To also mitigate the likelihood of franchisee failure, it is especially important for franchisees to exercise caution with franchisee empowerment by ensuring that, if granted flexibility, they are still operating according to franchisor principles, for example in terms of maintaining the franchisor's quality standards and offering franchisor approved products. Given the influence of good franchisee performance on curbing franchisee failure, franchisees should explore ways of enhancing their capabilities in order to strengthen the performance of their outlets. Furthermore, this review highlights that commitment to the longevity of the franchisor-franchisee partnership is crucial on the part of the franchisee in order to reduce failure.

The empirical evidence in this review also has implications for aspiring franchisees. Prospective franchisees can mitigate the likelihood of franchisee failure by avoiding the purchase of franchise outlets that have low and extremely high levels of franchisee's initial investments. The findings also demonstrate that it is crucial for aspiring franchisees to undertake different elements of due diligence before joining franchise organizations. Given the roles of franchisor adverse selection and earnings claims in curbing franchisee failure, prospective franchisees can undertake verifications of franchisor disclosures with existing franchisees prior to investing in the franchise. In addition, prospective franchisees can evaluate the potential impact of country of origin of the franchise on the risk of franchisee failure before joining franchise organizations.

Limitations and directions for future research

Since the focus of this study is on franchisee failure, it excludes research on franchisor failure and where franchisee failure is not clearly differentiated from failure that occurs at system-level (such as where the franchise failure variable is measured in terms of both company-owned outlets and franchise outlets). Future scholars can develop more empirical studies on these areas to extend knowledge on business failure in the franchise context in general. Furthermore, caution was exercised to ensure that the empirical evidence from prior studies, that are included in this review, are based on the definition of franchisee failure employed in this paper, which focuses on franchisees that have exited for negative reasons (Frazer and Winzar, 2005). Future research can examine instances of franchisee exits that might be associated with positive reasons (such as retirement) and impact of these on franchise chains.

It is possible that some of the franchise organizations, on which prior studies were based, may have under-reported instances of franchisee failure within their organizations. Some franchisors may conceal incidences of franchisee failures within their chains in order to protect their brands. In such circumstances, franchisors may continue operating the failed franchise outlets as company-owned outlets, without acknowledging these as having had occurrences of franchisee failure. However, concealed cases of franchisee failure can have negative impact on existing franchisees and prospective franchisees, and the entire franchise chains. Therefore, future research can study issues around ethical reporting of franchisee failure and how these affect the franchise sector.

Many of the prior studies on which the evidence from this review are based, do not show the role of respective franchise partners in terminating the franchise agreement. These can be incorporated in future research to understand how the franchisor and franchisee influence franchisee exit. The franchisor and franchisee parties are legally independent, but economically interdependent – i.e., they are distinctly individual, but linked, organizations (Michael, 2000; Spinelli and Birley, 1996; Winsor et al., 2012). "These dynamics have led researchers to develop several different research streams and theoretical approaches for examining franchising" (Meek et al., 2011: 559). Consequently, these can provide different contributions to understanding franchisee failure.

Whilst there were several areas of consistencies in the findings reported in this review, there were many inconsistencies as well. Both provide important areas for future scholars to explore further when developing research studies on franchisee failure. Future studies can improve understanding of franchisee failure by employing more standardized approaches to defining franchisee failure in order to minimize discrepancies in research findings. In addition, when employing similar research methodologies as prior studies, in different countries, the evidence from this review suggests that it is vital to investigate the country context, by studying how this might influence franchisee failure, in addition to the factors being theorized as antecedents of franchisee failure. In instances where a single study is being undertaken on multiple countries, these can provide more value if the potential environmental influences of the countries on franchisee failure are examined and made apparent in the study. Research on franchisee failure in general will also benefit by including the use of more longitudinal data.

It was obvious that there are limited insights on the stages of franchisee failure, as most studies focus on the antecedents of franchisee failure (exception being Holmberg and Morgan, 2007). Holmberg and Morgan (2007) argue that franchisee failure is a multi-phase process that develops over time, and understanding this process is critical to adopting failure mitigation strategies. As Holmberg and Morgan (2003: 404) explain, if franchisee failure is recognized and managed early, "systematic risk mitigation strategies might be developed, losses minimized, and turnover possibly avoided". Future research can examine how the factors contributing to franchisee failure can arise at different stages of franchisee life-cycle.

Overall, this paper offers a novel systematic literature review that provides understanding of ways in which franchisee failure can be curbed globally, demonstrating important areas that can be further examined in future studies.

References

Alon, I., Boulanger, M., Misati, E. and Madanoglu, M. 2015. Are the parents to blame? Predicting franchisee failure. *Competitiveness Review*, *25*(2), pp.205-217.

Antia, K.D., Zheng, X. and Frazier, G.L., 2013. Conflict management and outcomes in franchise relationships: The role of regulation. *Journal of Marketing Research*, *50*(5), pp.577-589.

Antia, K.D., Mani, S. and Wathne, K.H., 2017. Franchisor-franchisee bankruptcy and the efficacy of franchisee governance. *Journal of Marketing Research*, *54*(6), pp.952-967.

Argyres, N. and Bercovitz, J., 2015. Franchisee associations as sources of bargaining power? Some evidence. *Journal of Economics & Management Strategy*, *24*(4), pp.811-832.

Barthélemy, J., 2011. Agency and institutional influences on franchising decisions. *Journal of Business Venturing*, *26*(1), 93-103.

Bates, T., 1995a. Analysis of survival rates among franchise and independent small business startups. *Journal of Small Business Management*, *33*(2), pp.26-36.

Bates, T., 1995b. A comparison of franchise and independent small business survival rates. *Small Business Economics*, *7*(5), pp.377-388.

Bates, T., 1998. Survival patterns among newcomers to franchising. *Journal of Business Venturing*, *13*(2), pp.113-130.

Beales, J.H. and Muris, T.J., 1995. The foundations of franchise regulation: Issues and evidence. *Journal of Corporate Finance*, *2*(1-2), pp.157-197.

BFA (British Franchise Association)/ NatWest Franchise Survey, 2018.

Brand, M.J., Croonen, E.P. and Welsh, D.H., 2016. Successfully managing chain-wide transformational change. *Organizational Dynamics*, *45*(2), pp.94-103.

Buchan, J., Frazer, L., Zhen Qu, C. and Nicholls, R., 2015. Franchisor insolvency in Australia: Profiles, factors, and impacts. *Journal of Marketing Channels*, *22*(4), pp.311-332.

Calderon-Monge, E., Pastor-Sanz, I. and Huerta-Zavala, P., 2017. Economic sustainability in franchising: A model to predict franchisor success or failure. *Sustainability*, *9*(8), p.1419.

Carney, M. and Gedajlovic, E., 1991. Vertical integration in franchise systems: Agency theory and resource explanations. *Strategic Management Journal*, *12*(8), pp.607-629.

Castrogiovanni, G.J., Justis, R.T. and Julian, S.D., 1993. Franchise failure rates: An assessment of magnitude and influencing factors. *Journal of Small Business Management*, *31*(2), pp.105-114.

CFA (Canadian Franchise Association) Annual Accomplishments Report, 2019. https://issuu.com/franchisecanada/docs/cfa_ar2019?e=32857347/69171575 (accessed on 14th March 2020).

Chiou, J.S., Hsieh, C.H. and Yang, C.H., 2004. The effect of franchisors' communication, service assistance, and competitive advantage on franchisees' intentions to remain in the franchise system. *Journal of Small Business Management*, *42*(1), pp.19-36.

Clarkin, J.E., 2008. Channel changes: An examination of ownership change in franchise firms. *Journal of Marketing Channels*, *15*(1), pp.23-41.

Clarkin, J.E. and Rosa, P.J., 2005. Entrepreneurial teams within franchise firms. *International Small Business Journal*, *23*(3), pp.303-334.

Combs, J.G., Michael, S.C. and Castrogiovanni, G.J., 2009. Institutional influences on the choice of organizational form: The case of franchising. *Journal of Management*, *35*(5), pp.1268-1290.

Cox, J. and Mason, C., 2009. Franchise network restructuring: Pressures, constraints and mechanisms. *Entrepreneurship and Regional Development*, *21*(5-6), pp.503-527.

Croonen, E., 2010. Trust and fairness during strategic change processes in franchise systems. *Journal of Business Ethics*, *95*(2), pp.191-209.

Croonen, E.P. and Brand, M.J., 2015. Antecedents of franchisee responses to franchisor-initiated strategic change. *International Small Business Journal*, *33*(3), pp.254-276.

Dada, L., 2018. A model of entrepreneurial autonomy in franchised outlets: A systematic review of the empirical evidence. *International Journal of Management Reviews*, *20*(2), pp.206-226.

Dada, L., Jack, S. and George, M., 2016. University–business engagement franchising and geographic distance: A case study of a business leadership programme. *Regional Studies*, *50*(7), pp.1217-1231.

Dant, R.P., 2008. A futuristic research agenda for the field of franchising. *Journal of Small Business Management*, *46*(1), pp.91-98.

Davey, M.M., Cummings, G., Newburn-Cook, C.V. and Lo, E.A., 2009. Predictors of nurse absenteeism in hospitals: A systematic review. *Journal of Nursing Management*, 17, pp.312–330.

Davies, M.A., Lassar, W., Manolis, C., Prince, M. and Winsor, R.D., 2011. A model of trust and compliance in franchise relationships. *Journal of Business Venturing*, *26*(3), pp.321-340.

Emerson, R.W. 2016. Franchise terminations: Good cause decoded. *Wake Forest Law Review*, *51*, pp.103-164.

Entrepreneur.com. https://www.entrepreneur.com/franchise500/2019 (accessed on 9th January 2020).

Export.gov. https://www.export.gov/search#/search/articles?q=franchise&_k=qdepw3 (accessed on 13th August 2019).

Falbe, C.M. and Welsh, D.H., 1998. NAFTA and franchising: A comparison of franchisor perceptions of characteristics associated with franchisee success and failure in Canada, Mexico, and the United States. *Journal of Business Venturing*, *13*(2), pp.151-171.

Fitz-Koch, S., Nordqvist, M., Carter, S. and Hunter, E., 2018. Entrepreneurship in the agricultural sector: A literature review and future research opportunities. *Entrepreneurship Theory and Practice*, *42*(1), pp.129-166.

Forbes.com. https://www.forbes.com/sites/karstenstrauss/2019/06/19/best-worst-franchises-buy-own/#6e0e85977d79 (accessed on 9th January 2020).

Franchise.org. Franchising Industry: A reference for U.S. exporters https://www.franchise.org/sites/default/files/2019-05/USCS_Franchising_Resource_Guide_2018.pdf (accessed on 9th January 2020).

Frazer, L., 2001. Causes of disruption to franchise operations. *Journal of Business Research*, *54*(3), pp.227-234.

Frazer, L. and Terry, A., 2002. Factors affecting franchise agreement terminations: Lessons for the franchising sector. *Journal of Small Business Strategy*, *13*(1), pp.105-116.

Frazer, L. and Winzar, H., 2005. Exits and expectations: Why disappointed franchisees leave. *Journal of Business Research*, *58*(11), pp.1534-1542.

Frazer, L., Merrilees, B. and Wright, O., 2007. Power and control in the franchise network: An investigation of ex-franchisees and brand piracy. *Journal of Marketing Management*, *23*(9-10), pp.1037-1054.

Frazer, L., Weaven, S., Giddings, J. and Grace, D., 2012. What went wrong? Franchisors and franchisees disclose the causes of conflict in franchising. *Qualitative Market Research: An International Journal*, *15*(1), pp.87-103.

Frazer, L. and Grace, A., 2017. Franchisor-franchisee relationships. In *Handbook of Research on Franchising*. Edward Elgar Publishing.

Gant, J.L. and Buchan, J., 2019. Moral hazard, path dependency and failing franchisors: Mitigating franchisee risk through participation. *Federal Law Review*, p.0067205X19831841.

Germain, P.B. and Cummings, G.G., 2010. The influence of nursing leadership on nurse performance: A systematic literature review. *Journal of Nursing Management*, 18, pp. 425-439.

Grünhagen, M., DiPietro, R.B., Stassen, R.E. and Frazer, L., 2008. The effective delivery of franchisor services: A comparison of U.S. and German support practices for franchisees. *Journal of Marketing Channels*, *15*(4), pp.315-335.

Grünhagen, M., Zheng, X.V. and Wang, J.J., 2017. When the music stops playing: Post-litigation relationship dissolution in franchising. *Journal of Retailing*, *93*(2), pp.138-153.

Hakala, H., 2011. Strategic orientations in management literature: Three approaches to understanding the interaction between market, technology, entrepreneurial and learning orientations. *International Journal of Management Reviews*, *13*(2), pp.199-217.

Hendrikse, G., Hippmann, P. and Windsperger, J., 2015. Trust, transaction costs and contractual incompleteness in franchising. *Small Business Economics*, *44*(4), pp.867-888.

Holmberg, S.R. and Morgan, K.B., 2003. Franchise turnover and failure: New research and perspectives. *Journal of Business Venturing*, *18*(3), pp.403-418.

Holmberg, S.R. and Morgan, K.B., 2004. Retail marketing channel franchise failure: A strategic management perspective and longitudinal analysis. *Journal of Marketing Channels*, *11*(2-3), pp.55-76.

Holmberg, S.R. and Morgan, K.B., 2007. Entrepreneurial global franchise ventures: US and European franchisee failure strategic and empirical perspectives. *International Entrepreneurship and Management Journal*, *3*(4), pp.379-401.

Hsieh, H.F. and Shannon, S.E., 2005. Three approaches to qualitative content analysis. *Qualitative Health Research*, *15*(9), pp.1277-1288.

Jang, S. S. and Park, K., 2019. A sustainable franchisor-franchisee relationship model: Toward the franchise win-win theory. *International Journal of Hospitality Management*, *76*, 13-24.

Joffe, H. and Yardley, L., 2004. Content and thematic analysis. In Marks, D.F. and Yardley, L. *Research methods for clinical and health psychology*, Sage Publications, pp. 56-68.

JSTOR Support https://support.jstor.org/hc/en-us/articles/115011338628-Searching-Are-JSTOR-articles-peer-reviewed- (accessed on 10th August 2019).

Kacker, M., Dant, R.P., Emerson, J. and Coughlan, A.T., 2016. How firm strategies impact size of partner-based retail networks: Evidence from franchising. *Journal of Small Business Management*, *54*(2), pp.506-531.

Keupp, M.M., Palmié, M. and Gassmann, O., 2012. The strategic management of innovation: A systematic review and paths for future research. *International Journal of Management Reviews*, 14, pp. 367-390.

Krippendorff, K., 2004. *Content analysis: An introduction to its methodology*. Sage Publications.

Lafontaine, F., Zapletal, M. and Zhang, X., 2019. Brighter prospects? Assessing the franchise advantage using census data. *Journal of Economics & Management Strategy*, *28*(2), pp.175-197.

Lanchimba, C., Windsperger, J. and Fadairo, M., 2018. Entrepreneurial orientation, risk and incentives: The case of franchising. *Small Business Economics*, *50*(1), pp.163-180.

Lim, J. and Frazer, L., 2002. Introducing franchising regulation: An analysis of the Australian Franchising Code of Conduct. *Journal of Marketing Channels*, *10*(2), pp.39-56.

López-Bayón, S. and López-Fernández, B., 2016. Partner empowerment and relationship failure in franchising. *Journal of Small Business Management*, *54*(4), pp.1059-1079.

López-Fernández, B. and López-Bayón, S., 2018. Antecedents of early terminations in franchising: Franchisor versus franchisee cancelations. *Small Business Economics*, *50*(4), pp.677-695.

Manolis, C., Dahlstrom, R. and Nygaard, A., 1995. A preliminary investigation of ownership conversions in franchised distribution systems. *Journal of Applied Business Research*, *11*(2), pp.1-8.

Meek, W.R., Davis-Sramek, B., Baucus, M.S. and Germain, R.N., 2011. Commitment in franchising: The role of collaborative communication and a franchisee's propensity to leave. *Entrepreneurship Theory and Practice*, *35*(3), pp.559-581.

Michael, S.C., 2000. Investments to create bargaining power: The case of franchising. *Strategic Management Journal*, 497-514.

Michael, S.C., 2009. Entrepreneurial signaling to attract resources: The case of franchising. *Managerial and Decision Economics*, *30*(6), pp.405-422.

Michael, S.C. and Combs, J.G., 2008. Entrepreneurial failure: The case of franchisees. *Journal of Small Business Management*, *46*(1), pp.73-90.

Mignonac, K., Vandenberghe, C., Perrigot, R., El Akremi, A. and Herrbach, O., 2015. A multi-study investigation of outcomes of franchisees' affective commitment to their franchise organization. *Entrepreneurship Theory and Practice*, *39*(3), pp.461-488.

Nijmeijer, K.J., Fabbricotti, I.N. and Huijsman, R., 2014. Making franchising work: A framework based on a systematic review. *International Journal of Management Reviews*, *16*(1), pp.62-83.

Norton, S.W., 1988. Franchising, brand name capital, and the entrepreneurial capacity problem. *Strategic Management Journal*, *9*(S1), pp.105-114.

Parris, D.L. and Peachey, J.W., 2013. A systematic literature review of servant leadership theory in organizational contexts. *Journal of Business Ethics*, *113*(3), pp.377-393.

Patel, P.C. and Pearce, J.A., 2019. Franchisees and loan default on third-party guarantee loans: Evidence from the United States. *Entrepreneurship Theory and Practice*, p.1042258719853508.

Perdreau, F., Chaudey, M., Chanut, O. and Fadairo, M., 2018. Contract duration and contractual learning: Evidence from franchising networks. *Managerial and Decision Economics*, *39*(2), pp.240-252.

Perkmann, M., Tartari, V., McKelvey, M., Autio, E., Broström, A., D'Este, P., Fini, R., Geuna, A., Grimaldi, R., Hughes, A. and Krabel, S., 2013. Academic engagement and commercialization: A review of the literature on university–industry relations. *Research Policy*, *42*(2), pp.423-442.

Schell, B.H. and McGillis, S., 1995. How Type A franchisees cope with failed businesses: An analysis of micro-and macro-system factors. *Journal of Small Business & Entrepreneurship*, *12*(4), pp.27-48.

Sniegowski, D., 2014. U.S. Franchise unit turnover rate is 122 Percent. https://www.bluemaumau.org/story/2014/10/15/us-franchise-unit-turnover-rate-122-percent (accessed on 10th January 2020).

Spinelli, S. and Birley, S., 1996. Toward a theory of conflict in the franchise system. *Journal of Business Venturing*, *11*(5), 329-342.

Stanworth, J., Purdy, D., Price, S. and Zafiris, N., 1998. Franchise versus conventional small business failure rates in the U.S. and U.K.: More similarities than differences. *International Small Business Journal*, *16*(3), pp.56-69.

Statista. https://www.statista.com/statistics/685293/number-of-franchisees-in-sweden/ (accessed on 13th August 2019).

Statista. https://www.statista.com/statistics/665860/franchising-number-of-franchisees-in-germany/ (accessed on 13th August 2019).

Swart, J.C. and Carter, R.B., 1972. Negroes in franchising. *Journal of Retailing*, *48*(3), pp.81-127.

Wang, C.L. and Chugh, H., 2014. Entrepreneurial learning: Past research and future challenges. *International Journal of Management Reviews*, *16*(1), pp.24-61.

Wang, J.J., Grünhagen, M., Ji, L.J. and Zheng, X.V., 2020. Conflict aftermath: Dispute resolution and financial performance in franchising. *Journal of Retailing*, In Press.

Watson, A. and Dada, L., 2017. Managing entrepreneurial tensions in franchise systems. In *Handbook of Research on Franchising*. Edward Elgar Publishing.

Watson, A. and Johnson, R., 2010. Managing the franchisor–franchisee relationship: A relationship marketing perspective. *Journal of Marketing Channels*, *17*(1), pp.51-68.

Weber, R.P., 1990. *Basic content analysis*. Sage Publications.

Whetten, D.A. 1989. What constitutes a theoretical contribution? *Academy of Management Review*, *14*, pp.490-495.

whichfranchise.co.za. https://whichfranchise.co.za/franchising-south-africa-franchise-facts-figures/ (accessed on 13th August 2019).

White, M.D. and Marsh, E.E., 2006. Content analysis: A flexible methodology. *Library trends*, *55*(1), pp.22-45.

Winsor, R.D., Manolis, C., Kaufmann, P.J. and Kashyap, V., 2012. Manifest conflict and conflict aftermath in franchise systems: A 10-year examination. *Journal of Small Business Management*, *50*(4), pp.621-651.

Winter, S.G., Szulanski, G., Ringov, D. and Jensen, R.J., 2012. Reproducing knowledge: Inaccurate replication and failure in franchise organizations. *Organization Science*, *23*(3), pp.672-685.

Wright, O. and Grace, A., 2011. Trust and commitment within franchise systems: An Australian and New Zealand perspective. *Asia Pacific Journal of Marketing and Logistics*, *23*(4), pp.486-500.

Zachary, M.A., McKenny, A.F., Short, J.C., Davis, K.M. and Wu, D., 2011. Franchise branding: An organizational identity perspective. *Journal of the Academy of Marketing Science*, *39*(4), pp.629-645.

Zerbinati, S. and Souitaris, V. 2005. Entrepreneurship in the public sector: A framework of analysis in European local governments. *Entrepreneurship and Regional Development*, *17*, pp.43-64.

Zwisler, C.E. (2019) Global Franchise Regulation Update.
https://www.franchise.org/sites/default/files/2019-

05/%5BPUB%5D%20Global%20Franchise%20Regulation%20Update%204844-9080-8395%20v.25.pdf (accessed on 8th December 2019).

Table 1. Initial Sample

Electronic databases	No of articles
ABI/INFORM Complete (ProQuest)	315
Business Source Complete	477
JSTOR	172
Independent search from reference lists of selected articles and Google Scholar	30
Total	**994**

Notes

Search strategy for:

(1) ABI/INFORM Complete (ProQuest) – Advanced search using the search terms consecutively (e.g. franchis* AND fail*) in *Abstract*, *Document Title* and *Publication Title* consecutively, limited to *Full text* and *Peer reviewed, Scholarly Journals*, Language is *English,* Publication Date to *June 30 2019.*

(2) Business Source Complete – Advanced search using the search terms consecutively (e.g. franchis* AND fail*) in *Title* and *Abstract or Author-Supplied Abstract* consecutively, limited to *Full text* and *Scholarly (Peer Reviewed) Journals*, Publication Date to *June 2019.*

(3) JSTOR – Advanced search using the search terms consecutively (e.g. franchis* AND fail*) in *Item Title* and *Abstract* consecutively, for *Content I can access*, with Item Type being *Articles*, Language is *English*, Publication Date to *2019/06*.

Table 2. Description of the Articles included in the Systematic Literature Review: In Chronological Order from Newest to Oldest

Author (Year of publication)	**Factor associated with franchisee failure addressed in the paper**	**Main findings in terms of curbing franchisee failure**	**Research design/ method/ data**	**Theoretical perspective**	**Level/unit of analysis (i.e. the respondent/ perspective utilized for analysis)**	**Industry/ sector studied**	**Country of study/ regional focus**
López-Fernández and López-Bayón, 2018	Influencing factors of franchisee failure (single factors)	Single factors to consider in curbing franchisee failure: franchisee flexibility, franchisor and franchisee's capabilities, franchise structure	*Quantitative methodology*: Secondary information, and primary data obtained from a mail survey	Agency theory and resource-based theory	Franchise chains/ franchisors	Controlled for retail-type chains	Spain
Antia et al., 2017	Influencing factors of franchisee failure (single factors) Influencing factors of franchisee failure (joint factors)	Single factors to consider in curbing franchisee failure: franchisee flexibility, franchise outlet ownership Joint factors to consider in curbing franchisee failure: franchisee selection and franchisee's standardization ability, multiunit franchising and plural form franchising, plural form franchising and royalty rate	*Quantitative methodology*: Multiple archival sources	Agency perspective	Franchise system (comprised of franchisees and franchisors)	Multiple sectors	U.S.
Grünhagen et al., 2017	Influencing factors of franchisee failure (single factors)	Single factors to consider in curbing franchisee failure: franchisor and franchisee deviation, franchise partner selection	*Quantitative methodology*: Secondary data obtained from franchise disclosure documents (FDDs), and supplementary	Agency theory and institutional theory	Franchisors and franchisees	Unknown	U.S.

	Moderating factors of franchisee failure	Joint factors to consider in curbing franchisee failure: franchisee adverse selection and franchise law, franchisee deviation and franchise law	data obtained from *Bond's Franchise Guide* and *Entrepreneur Magazine*				
Brand et al., 2016	Influencing factor of franchisee failure (single factor)	Single factor to consider in curbing franchisee failure: franchisor and franchisee relationship	*Qualitative methodology*: Case studies	Organizational change processes	Franchisors and franchisees	Drugstore industry	The Netherlands
Emerson, 2016	Influencing factor of franchisee failure (single factors)	Single factors to consider in curbing franchisee failure: franchisee flexibility, franchisee deviation	*Quantitative methodology*: Cases compiled via Lexis and Westlaw searches	Agency principles	Franchisor	Unknown	Unknown full details in terms of country/ region (but the focus was on federal and state cases)
López-Bayón and López-Fernández, 2016	Influencing factors of franchisee failure (single factors)	Single factors to consider in curbing franchisee failure: franchisee flexibility, franchisee's capabilities	*Quantitative methodology*: Mail survey	Agency theory and resource-based explanations	Franchisor firms	Many industries	Spain
	Moderating factors of franchisee failure	Joint factors to consider in curbing franchisee failure: franchisee autonomy in product assortment and franchisor's brand name, franchisee autonomy in outlet decoration and franchisor's brand name					

Argyres and Bercovitz, 2015	Influencing factors of franchisee failure (single factors)	Single factors to consider in curbing franchisee failure: franchisee flexibility, external environment	*Quantitative methodology*: Data collected from various sources: (i) filings at the California and Illinois Departments of Corporations, including Uniform Franchise Offering Circulars (UFOCs); (ii) the American Association of Franchisees and Dealers (AAFD); (iii) the *AD$ Summary,* published annually by LNA/ Media Watch	Agency theory, transaction cost theory and bargaining power perspective	Franchisors and franchise systems	Quick-service restaurant chains, automotive service chains, and home maintenance chains	U.S.
Alon et al., 2015	Influencing factors of franchisee failure (single factors)	Single factors to consider in curbing franchisee failure: franchisee flexibility, franchisor and franchisee's capabilities	*Quantitative methodology*: Datasets from the World Franchise Council (WFC) and the Small Business Administration (SBA)	Agency theory, resource scarcity theory and signalling theory	Franchise chains	Multiple industries	U.S.
Buchan et al., 2015	Influencing factor of franchisee failure (single factor)	Single factor to consider in curbing franchisee failure: franchise system performance	*Quantitative methodology*: Survey	Theoretical perspectives of franchise failure	Administrators of franchisors (that had entered administration)	Unknown	Australia
Croonen and Brand, 2015	Influencing factor of franchisee failure (single factor)	Single factor to consider in curbing franchisee failure: franchisor and franchisee relationship	*Qualitative methodology*: Case studies	Agency perspective; change perspective; and exit, voice, loyalty, neglect (EVLN) perspective	Franchisors and franchisees	Retail	The Netherlands
Frazer et al., 2012	Influencing factor of franchisee failure (single factor)	Single factor to consider in curbing franchisee failure: franchisee flexibility	*Qualitative methodology*: Multiple case studies	Relational exchange perspective	Franchisors and franchisees	Multiple industries	Cases having Australia and U.S.

							franchisor origin
Winter et al., 2012	Influencing factors of franchisee failure (single factors)	Single factors to consider in curbing franchisee failure: franchisee deviation, franchise outlet ownership, franchisee performance	*Quantitative methodology*: Data was from a proprietary data set and publicly available data	Adaptation and replication perspectives	Franchisor	Multiple industries	U.S.
Meek et al., 2011	Influencing factors of franchisee failure (single factors)	Single factors to consider in curbing franchisee failure: franchisor and franchisee relationship	*Quantitative methodology*: Survey	Social exchange theory	Franchisees	Multiple industries	U.S.
Wright and Grace, 2011	Influencing factors of franchisee failure (single factors)	Single factors to consider in curbing franchisee failure: franchisor and franchisee relationship	*Qualitative methodology*: Multiple case studies	Agency theory	Franchisees	Food-retailing sector	Australia and New Zealand
Croonen, 2010	Influencing factors of franchisee failure (single factors)	Single factors to consider in curbing franchisee failure: franchisor and franchisee relationship	*Qualitative methodology*: Case studies	Social exchange theory; organizational change; and exit, voice, loyalty, neglect (EVLN) perspective	Franchisors and franchisees	Drugstore industry	The Netherlands
Cox and Mason, 2009	Influencing factors of franchisee failure (single factors)	Single factors to consider in curbing franchisee failure: franchisee performance	*Qualitative methodology*: Interviews	Agency theory and resource-based theory	Franchisors	Six sectors: retail; fast food; personal services; distribution; business-to-business; and industrial and commercial	U.K.
Michael and Combs, 2008	Influencing factors of franchisee failure (single factors)	Single factors to consider in curbing franchisee failure: franchise outlet ownership,	*Quantitative methodology*: Data obtained from Uniform Franchise Offering Circulars	Agency theory and resource-based theory	Franchisors	Restaurant	U.S.

		franchisee's capabilities, franchise structure	(UFOC) and the media reporting service *Ad $ Summary*				
Frazer et al., 2007	Influencing factors of franchisee failure (single factors)	Single factors to consider in curbing franchisee failure: franchisee flexibility, franchisor and franchisee relationship	*i) Quantitative methodology*: Survey *ii) Qualitative methodology*: Interviews	Power in the franchise channel	Franchisors, franchisees and ex- franchisees	Multiple industries	Australia
Holmberg and Morgan, 2007	Influencing factors of franchisee failure (single factors)	Single factors to consider in curbing franchisee failure: franchise structure, franchisee performance	*Quantitative methodology*: Multiple sources of secondary data (including data obtained from Uniform Franchise Offering Circulars (UFOCs))	Strategic management perspective	Franchisors and franchisees	Multiple industries	U.S., U.K. and other European countries
Clarkin and Rosa, 2005	Influencing factors of franchisee failure (single factors)	Single factors to consider in curbing franchisee failure: franchisee flexibility	*i) Quantitative methodology*: Using secondary data *ii) Qualitative methodology*: Interviews	Teamwork perspective	Franchisors and franchisees	Multiple industries	North America
Frazer and Winzar, 2005	Influencing factors of franchisee failure (single factors)	Single factors to consider in curbing franchisee failure: franchise structure, franchisor and franchisee relationship	*i) Qualitative methodology*: Interviews *ii) Quantitative methodology*: Survey	Theory building on factors contributing to negative franchisee exit	Franchisors, ex-franchisees	Multiple industries Also, categorized as retail and non-retail	Australia
Holmberg and Morgan, 2004	Influencing factors of franchisee failure (single factors)	Single factors to consider in curbing franchisee failure: franchise structure	*Quantitative methodology*: Secondary data (obtained from Uniform Franchise Offering Circulars	Strategic management perspective	Franchise systems and franchise outlets	Multiple industries, with particular focus on the retail sector	U.S.

			(UFOCs))				
Holmberg and Morgan, 2003	Influencing factors of franchisee failure (single factors)	Single factors to consider in curbing franchisee failure: franchise structure, external environment	*Quantitative methodology*: Secondary data (obtained from Uniform Franchise Offering Circulars (UFOCs))	Strategic perspective	Franchise systems and franchise outlets	Multiple industries	U.S.
Frazer and Terry, 2002	Influencing factors of franchisee failure (joint factors)	Joint factors to consider in curbing franchisee failure: older, larger and more dispersed franchise systems	*Quantitative methodology*: Survey	Relational approach	Franchisors	Multiple industries	Australia
Lim and Frazer, 2002	Influencing factors of franchisee failure (single factor)	Single factor to consider in curbing franchisee failure: External environment	*Mixed methods (i.e. quantitative and qualitative methodologies)*: mail surveys and in-depth interviews	A theoretical explanation of the (Australian) Franchising Code of Conduct's influence on the franchisor-franchisee relationship is developed	Franchisors, franchisees and franchising advisers	Most of the respondents were from the retail (non-food) industry, property and business services industry, and retail (food) industry	Australia
Frazer, 2001	Influencing factors of franchisee failure (joint factors)	Joint factors to consider in curbing franchisee failure: Older and larger franchise systems	*Quantitative methodology*: Survey	Model of franchise system disruption	Franchisors	Multiple industries	Australia
Bates, 1998	Influencing factors of franchisee failure (single factors)	Single factors to consider in curbing franchisee failure: franchise outlet ownership	*Quantitative methodology*: Secondary data obtained from the Census Bureau	Agency theory	Franchisee and independent (i.e. non-franchised) businesses	Restaurant	U.S.
Falbe and Welsh, 1998	Influencing factors of franchisee failure (single factors)	Single factors to consider in curbing franchisee failure: external environment	*Quantitative methodology*: Survey	Agency theory and resource scarcity theory	Franchisors	Four business categories, namely: 1) Food; 2) Business Service (accounting, financial and	Canada, Mexico and U.S.

						business printing services); 3) Consumer Service (maid, yard and decorating services); and 4) other retail	
Bates, 1995a	Influencing factors of franchisee failure (single factors)	Single factors to consider in curbing franchisee failure: external environment	*Quantitative methodology*: Data obtained from the Bureau of the Census	Unknown	Franchisee and independent (i.e. non-franchised) businesses	Retailing and non-retailing industries	U.S.
Bates, 1995b	Influencing factors of franchisee failure (single factors)	Single factors to consider in curbing franchisee failure: franchise outlet ownership	*Quantitative methodology*: Data obtained from the Bureau of the Census	Unknown	Franchisee and independent (i.e. non-franchised) businesses	Multiple industries	U.S.
Beales and Muris, 1995	Influencing factors of franchisee failure (single factors)	Single factors to consider in curbing franchisee failure: franchisee flexibility, franchise structure, franchisor and franchisee relationship, external environment	*Quantitative methodology*: Data obtained from the U.S. Commerce Department's *Franchising in the Economy*	Economics of contracts and of the franchise relationship	Franchisors and franchisees	Multiple industries	U.S.
Manolis et al., 1995	Influencing factors of franchisee failure (single factors)	Single factors to consider in curbing franchisee failure: franchisee deviation	*Quantitative methodology*: Data obtained from the U.S. Department of Commerce in the *Franchising in the Economy* series	Transaction cost economics and agency theory	Franchisor	Multiple industries	U.S.
Schell and McGillis, 1995	Influencing factors of franchisee failure (single factors)	Single factors to consider in curbing franchisee failure: franchisee flexibility	*Quantitative methodology*: Mail survey	Personality types	Franchisees	Product-based franchise, service-based franchise and others	Canada
Swart and Carter, 1972	Influencing factors of franchisee failure (single factors)	Single factors to consider in curbing franchisee failure:	*Quantitative methodology*: Mail survey	Unknown	Franchisors	Multiple industries	U.S.

		franchise outlet ownership, franchisee performance					

Figure 1. A Model for Curbing Franchisee Failure