

A Review of Franchising Research in Taiwan Social Science Citation Index (TSSCI) Database

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Abstract. This study investigated the current developmental state of research on franchise systems in Taiwan. A systematic literature review was conducted, in which studies published by the Taiwan Social Science Citation Index were used as the primary data and studies related to franchise systems were analyzed. The results showed that the most common types of research conducted by Taiwanese scholars were quantitative research (56.25%), case studies (25.0%), conceptual papers (12.5%), and qualitative research (6.25%). Of all the related topics investigated by Taiwanese scholars, entrepreneur traits, motivation for joining (or opening) a franchise system; performance; business types; and knowledge, technologies, and innovations were the most frequently explored. The most common theories examined were agency (22.22%), resource scarcity (16.67%), information asymmetry (11.11%), transaction cost (11.11%), intellectual capital (5.56%), resource dependence (5.56%), dynamic knowledge creation (5.56%), resource constraint (5.56%), social identity (5.56%), risk allocation (5.56%), and communication (5.56%) theories.

Keywords. Systematic literature review, Taiwanese Social Science Citation Index (TSSCI), Franchise system.

JEL. M10, L33, L52.

1. Introduction

In 1991, Williamson generalized the key differences between institutional economics, contract laws, and organizational theories, and asserted that economic organization takes on not only market and hierarchy forms but also hybrid forms. Franchise systems can be viewed as a type of hybrid economic organization; however, they are also a type of cooperative venture system (Gassenheimer, Baucus, & Baucus, 1996; Spinelli & Birley, 1996). Because franchisees exhibit entrepreneur-like traits (Evanschitzky, Caemmerer, & Backhaus, 2016), franchise systems provide them with a shortcut for gathering resources from all participating entrepreneurs, who devote themselves to a particular brand to facilitate its growth and make profits (Chiou & Droge, 2015). Franchise systems have become a topic of interest for researchers because of their uniqueness. In addition, they have grown rapidly over the past 25 years (Stanworth & Curran, 1991). A search of SSCI-related journals over the past decade (2005–2014) showed that 1,054 studies have been published on this topic, and that the number of studies published has grown annually, as follows: 54 in 2005, 71 in 2006, 78 in 2007, 89 in 2008, 114 in 2009, 109 in 2010, 143 in 2011, 116 in 2012, 123 in 2013, and 157 in 2014, (Web of Science, 2015). These results

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exemplified the attention that international journals are paying to franchise systems, and that many researchers have devoted themselves in studies in this field.

Franchise systems have become critical hybrid organizations in Taiwan and exhibit a major effect on its economy (Tsen & Wu, 2011). However, studies on this unique governance model remain scant in Taiwan, signifying that further investigation is warranted. The author of this study hopes to provoke the interest of researchers so that they can work together to tackle concerns related to franchise systems. In this study, relevant concepts were clarified and studies published by the Taiwan Social Science Citation Index (TSSCI) were reviewed to gain insight into the current state of research on franchise systems. The results and discussion are summarized to serve as a reference for future research.

2. Basic Concepts of a Franchise

A franchise system comprises a franchisor and two or more franchisees, whose relationships are clearly defined in a contract and entail working toward a common goal. This form of organization has become increasingly common (Michael, 2000). Because franchise systems may be viewed as a collection of many small businesses, their finances, ownership rights, and control rights have attracted researchers' attention (Hutchinson, 1999). Bound by a contract, franchisors and franchisees are in a mutually beneficial relationship in which they are legally independent but economically interdependent (Michael, 2000). This form of organization differs from that observed traditionally, where unique governance models are adopted to link small and large companies, enable coexistence (Stanworth & Curran, 1991), and facilitate effective resource allocation (Spinelli & Birley, 1996). Franchisors are managers and suppliers, whereas franchisees are managers and owners; franchisors and franchisees have a contractual relationship, not a partnership, in which clear and formal provisions are in place to regulate the matters that both parties must comply with. These matters include ensuring consistent product quality; following operating instructions (for franchisees); adopting identical, standard production procedures; and using identical logos (2000). Franchise system performance is a topic of interest to many researchers (El Akremi, Perrigot, & Piot-Lepetit, 2015; Chiou, & Droge, 2015).

Franchisors and franchisees struggle with information asymmetry. According to the "market for lemons" effect proposed by Akerlof (1970), the two parties in a trade relationship are generally unable to obtain complete information on the other party. This study proposed that franchisors have more internal information than franchisees do, and that the asymmetry of information makes it easy for franchisors to seek private gains at the cost of franchisees. The fact that the franchisors know more information will raise franchisees' suspicions, accelerating the collapse of the franchise system. Therefore, when franchisees join, franchisors and their partners (i.e., franchisees) must establish a trust relationship and relationship norms through mutual communication. In addition, the two parties must sign a formal and binding contract (Gassenheimer, Baucus, & Baucus, 1996), and franchisees must actively play the role of supervisors to protect their own interests from being harmed.

In a franchise system, the franchisor is the owner of the franchise logo and the guarantor of franchise product and service quality. A contract is in place to allow franchisees to use these rights (Michael, 2000). This signifies a hybrid of ownership rights and control rights as well as the presence of double governance (i.e., management and ownership governance) (Hutchinson, 1999). Franchisees exhibit entrepreneur-like traits and understand that by joining a franchise system and enjoying its brand identity, they will experience less difficulty entering the market (Evanschitzky, Caemmerer, & Backhaus, 2016). When franchisees join a franchise system, a part of them hopes to duplicate the success of the franchise and make profits quickly. Therefore, franchise systems with superior performance will attract more franchisees. Trust and communication are considered crucial factors in a relationship and prerequisites for superior performance and competitive success (Eser, 2012). Thus, commitment and trust between franchisors and franchisees are

crucial. The management models of transformational or empowering leadership can help improve relationships and transaction costs, which are positively correlated with franchise performance (Stanworth & Curran, 1991). Because franchisees must give up autonomy and meet franchisors' governance demands, franchisees must be sufficiently compensated (i.e., earn enough profits); if not, the franchise system will collapse. Under these premises, the franchise system has become preferred among entrepreneurs because of its unique governance model.

Franchise systems are a type of hybrid governance (Evanschitzky, Caemmerer, & Backhaus, 2016) and feature a form of economic organization that ranks between the two traditional forms of economic organization (i.e., market and hierarchy). Franchise performance is one of the major factors considered by franchisees prior to joining franchise systems (El Akremi, Perrigot, & Piot-Lepetit, 2015; Chiou & Droge, 2015). The presence of sufficient profit incentives will induce franchisees to join. Conversely, the absence of sufficient profit incentives will cause franchisees to leave. Franchisors, who play the roles of managers and suppliers, hope that their franchisees make a profit. However, they also worry that the franchisees will opt out of the franchise system and start their own businesses when they enjoy great success. Therefore, franchisors enforce strict contract law and restrict knowledge and technologies to retain franchisees in the system. Franchisees use their roles as mentors and suppliers as well as core product technologies to control franchisees, imposing rules to prevent core knowledge from leaking out. Chen & Dimou (2005) indicated that international hotel groups who recruit franchisees are exposed to two risks: knowledge leaks and opportunism. Conversely, franchisees may become overly dependent on franchisors as the providers of all operation-related products and technologies. This problem, combined with the high transaction costs involved, prevents franchisees from conducting successful operations when their franchisors stop supplying necessary products and technologies, and furthermore impedes franchisee evolution.

3. Methods

This study reviewed research on franchise systems conducted in Taiwan to gain insight into the current state of this area of study. Airiti Library was chosen as the study database and Academic Citation Index (ACI) was selected as the citation index. Relevant studies published in Taiwan before June 30, 2016 were found using "joining a franchise system" and "franchis*" (e.g., franchise, franchising, franchisor, and franchisee) as the keywords. On the basis of the theme of this study, the inclusion criterion selected was studies on franchise systems and the exclusion criteria chosen were (1) national organizations or alliances, (2) professional baseball franchises, (3) equal franchises, (4) business groups or alliances, (5) authorized or commissioned operations, (6) cable television franchises, (7) alliances, (8) franchise value hypotheses, and (9) studies unrelated to franchise systems. A total of 47 studies were collected, 16 of which were published by the TSSCI. This study primarily analyzed studies published by the TSSCI, and the search and screening process is described as follows (Fig. 1):

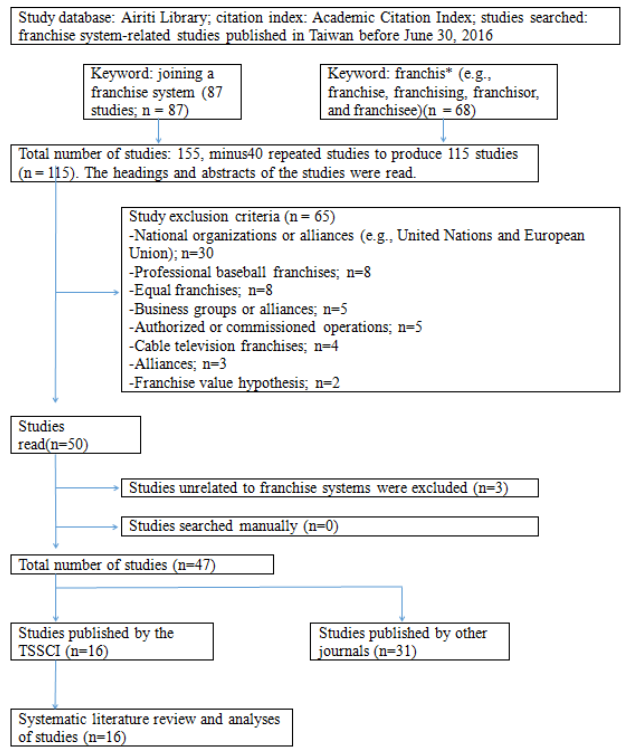


Figure 1. Search and screening process for studies related to franchise systems

4. Results and Discussion

4.1. Classification of study methods

An analysis of relevant papers published by the TSSCI showed that the most common types of studies that have been conducted by Taiwanese researchers are quantitative research (56.25%), case studies (25.0%), conceptual papers (12.5%), and qualitative research (6.25%). Studies that involved statistical analyses were mostly quantitative research, indicating that it is the dominant method and that researchers generally use quantified data to perform statistical analyses. Case studies involve in-depth, systematic qualitative analyses and may include quantitative data (Peng, *et al.*, 2010). Because case studies have a wealth of information, are diversified, and enable readers to discover the implications of phenomena described by the studies, they have become increasingly popular in recent years. Although conceptual papers only accounted for a relatively low percentage, they remain highly important because conceptual clarifications are a critical aspect of research related to franchise systems. Despite qualitative research only accounting for 6.25% of studies, the method was not overlooked by researchers. In fact, of the case studies obtained in this study, 100% employed the qualitative research method, and 25% used both the qualitative and quantitative research methods. This indicates that the qualitative design is the most commonly used research method in case studies to help researchers better understand the nature of case studies in this field. Details on research methods related to franchise systems are shown in Table 1.

Table 1. Research Methods Related to Franchise Systems

	Number of studies	Qualitative research (%)	Quantitative research (%)	Case studies (%)	Conceptual papers (%)
Studies published by the TSSCI	16	6.25	56.25	25.0	12.5

Note: 1. Case studies referred to in this table denote studies that involved qualitative and/or quantitative research in single or multiple cases (Peng, *et al.*, 2010).

2. Qualitative and quantitative research listed in this table does not include case studies that adopted qualitative and quantitative research methods

4.2. Classification of study topics

This study used the definition of franchise systems proposed by Chiou & Droge (2015), in which a franchise system is defined as a hybrid organization built on the contractual agreements made between the franchisor and the franchisee. The franchisor owns the brand name as well as the product and service-related processes, whereas the franchisee pays the franchisor a specified amount of Money for the opportunity to operate a small business. The franchisor grants the franchisee the rights to use relevant intellectual property and the brand name, and the two parties are committed to maximizing franchise profits. Topics covered in relevant studies in Taiwan have included entrepreneur traits; motivation for joining (or opening) a franchise system; performance; business types; and knowledge, technologies, and innovations (Table 2). This study examined the topics of franchise system, franchisor, and franchisee as investigated by researchers in previous studies. Accordingly, these topics have been divided into three sections, shown as follows.

Table 2. Topics Covered in Studies on Franchise Systems

Topics	Entrepreneur traits	Motivation for joining (or opening) a franchise system	Performance	Business types	Knowledge, technologies and innovations	Other
Franchise system			[3][10]	[10][12][14]	[4][8][14]	Price adjustment [9]
Franchisor		[7][11][16]			[3]	Franchise system contract [13]
Franchisee	[1][5][6][15]	[5]	[1][5]			Development of scale [2]

Note: Numbers in the brackets correspond to the following studies: [1] Lee, Hsu, Chen, & Huang (2010); [2] Su (2014); [3] Fang & Wang (2006); [4] Wang & Chen (2016); [5] Tsen & Wu (2011); [6] Li (2002); [7] Zhuo, Guo, & Hu (2010); [8] Hou & Lin (1999); [9] Lien & Sheu (2008); [10] Peng (2003); [11] You & Chen (2016); [12] Huang & Wang (2005); [13] Yang (2016); [14] Management Review Editorial Board (1986); [15] Tsai, Lu, & Zhong (2015); and [16] Wei & Zhang (2015).

4.3. Franchise system

In essence, franchising involves many small companies joining a contractual relationship-based franchise system and subsequently forming a large, hybrid organization, in which contractual relationships as well as formal and rigorous legal provisions are in place to regulate the conduct of the franchisor and the franchisees (Evanschitzky, Caemmerer, & Backhaus, 2016). As a result, franchise system-based hybrid organizations exhibit internal and external diversification. A franchise system comprises a franchisor and many franchisees, whose most important asset is their brand (Minkler & Park, 1994) and ultimate goal is to work together to maximize profits (Chiou & Droge, 2015). A review of the literature found that topics covered have included performance (12.5%); business types (18.75%); knowledge, technologies, and innovations (18.75%); and price adjustment (6.25%); among which business types and knowledge, technologies, and innovations were the topics that have most interested researchers.

Of the studies on the subject of franchise systems, two focused on performance; one study investigated the use of dual embeddedness (i.e., market and system) to facilitate knowledge creation and improve performance (Fang & Wang, 2006), whereas the other study compared the effect of business type on performance in the real estate intermediary industry. For the latter study, the results showed that outlet stores outperformed franchise and nonoutlet stores (Peng, 2003). From a strategic management perspective, franchise store shave operating costs lower than those of outlet stores, enabling faster expansion. However, quality may differ significantly between franchise stores, potentially creating problems. For example, when many franchisees are recruited, the poor performance of one franchisee will jeopardize the overall image of the franchise system, hindering performance and sustainable operations. The constant creation of knowledge and accumulation of organizational knowledge are prerequisites for gaining a competitive advantage (Fang & Wang,

2006), and knowledge sharing, trust, conflict management, and brand reputation are key factors affecting franchise system performance (Wu, 2015). These concepts may serve as a reference for future researchers when conducting related studies.

Furthermore, three studies on franchise systems delved into business types; one examined the effect of business type on performance in the real estate industry (Peng, 2003), one studied the business models of the refurbishment industry (Huang & Wang, 2005), and one explored business types and new product developments (Management Review Editorial Board, 1986). The studies mainly compared the pros and cons of the different business types and the effect of business type on performance, with the results indicating that outlet stores have the optimal business model; various business model shave their advantages and disadvantages; and outlet stores face several markedly difficult challenges such as high capital, high risk, high operating costs, and low expansion speed (Peng, 2003; Huang & Wang, 2005; Management Review Editorial Board, 1986). However, these challenges may be overcome through the adoption of the hybrid organizational model of franchise systems.

Three more of the studies analyzed knowledge, technologies, and innovations; one researched service innovation (Wang & Chen, 2016), one investigated new product development (Management Review Editorial Board, 1986) (both adopted case study methods), and one inspected the effect of information technology on franchise systems (Hou & Lin, 1999). One other related study covered the topic of price adjustment (Lien & Sheu, 2008), exploring the effects of the simultaneous price adjustment of gasoline products on franchise systems.

In summary, the eight franchise system-related studies (repeated studies were removed), mostly focused on how to achieve optimal performance; the pros and cons of different business types; knowledge, technologies, and innovations; and price adjustment.

4.4. Franchisors

In a franchise system, the franchisor has the power to control the entire hybrid organization. Because the franchisor owns the products, service processes, and brand name (Chiou & Droge, 2015) and grants franchisees relatively limited rights and resources (Burton, Cross, & Rhodes, 2000), it enjoys absolute dominance.

Of the studies on the subject of franchisors, five covered motivations for joining franchise systems (Zhuo, Guo, & Hu, 2010; You & Chen, 2016; Wei & Zhang, 2015); knowledge, technologies, and innovations (Fang & Wang, 2006); and franchise system contracts (Yang, 2016). Three studies investigated franchisors' motivations for opening franchise systems (primarily emphasizing the time when franchisors opened franchise systems and how franchises were to be managed and controlled when there were numerous ones in a region). Among these, You & Chen (2016) adopted a case study method to discuss brand insistence and fast expansion; Fang & Wang (2006) delved into the use of market embeddedness and system embeddedness by franchise systems to facilitate knowledge creation and improve organizational performance; and Yang (2016) argued that franchisors have the obligation to disclose contract information because they hold more information than franchisees, and discussed the responsible parties and compensation to be paid in the event of a breach of contract.

In summary, domestic studies on the subject of franchisors have mainly focused on franchisors' motivations for opening franchise systems. Future studies may explore other topics such as organizational structure, knowledge management, resource allocation, and information asymmetry.

4.5. Franchisees

In a franchise system, the franchisee pays the franchisor a specified amount of Money for the opportunity to operate a small business. The franchisor grants the franchisee the rights to use relevant intellectual property and the brand name (Chiou & Droge, 2015). Of the studies on the subject of franchisees, five covered

the topics of entrepreneur traits (Lee, *et al.*, 2010; Tsen & Wu, 2011; Lee, 2002; Tsai, Lu, & Zhong, 2015), motivation for joining a franchise system (Tsen & Wu, 2011), performance (Lee, *et al.*, 2010; Tsen & Wu, 2011), and development of scale (Su, 2014).

4.6. *Theoretical perspectives*

A literature review showed that most researchers conducted theory-based studies (Table 3). These involved agency (22.22%), resource scarcity (16.67%), information asymmetry (11.11%), transaction cost (11.11%), intellectual capital (5.56%), resource dependence (5.56%), dynamic knowledge creation (5.56%), resource constraint (5.56%), social identity (5.56%), risk allocation (5.56%), and intellectual capital (5.56%) theories. Of these, the most commonly referenced were agency, resource scarcity, information asymmetry, and transaction cost theories, which are explained as follows.

Table 3. *Theories Used in Studies on Franchise Systems*

Name of theories	Number of studies	Ratio (%)
Agency theory	4	22.22%
Resource scarcity theory	3	16.67%
Information asymmetry theory	2	11.11%
Transaction cost theory	2	11.11%
Intellectual capital theory	1	5.56%
Resource dependence theory	1	5.56%
Dynamic knowledge creation theory	1	5.56%
Resource constraint theory	1	5.56%
Social identity theory	1	5.56%
Risk allocation theory	1	5.56%
Intellectual capital theory	1	5.56%

Note: some studies used multiple theories

4.7. *Agency theory*

Agency theory posits that when a franchisor ventures into a distant or unfamiliar market, opening a franchise system that local franchisees can join will reduce costs. Failure to do so will increase costs. Therefore, agency theory predicts that when a franchisor ventures into such a market, the franchisor will become more dependent on the franchise system than they would be otherwise (Castrogiovanni, Combs, & Justis, 2006a). Implementation of a franchise system can minimize agency costs and strikes the optimal balance between rewards for factory outlet managers and company goals. The agent relationship consists of a client (i.e., the franchisor) and an agent (i.e., the franchisee), in which the first party (i.e., the client) gives authorization to the second party (i.e., the agent) to operate. Assuming that each party acts in self-interest and has independent goals, the client uses resources to ensure that the choice of hiring an agent yields the optimal result (Castrogiovanni, Combs, & Justis, 2006b).

4.8. *Resource scarcity theory*

Resource scarcity theory postulates that in the early stage of a business, companies are small and lack management experience. Therefore, they have difficulty obtaining funds from traditional financial markets. To drive rapid growth, the company may open a franchise system, in which funds collected from franchisees can be used as internally generated resources to achieve economies of scale (Castrogiovanni, Combs, & Justis, 2006b). As the franchise system grows, it generates capital and develops management abilities. In addition, because internal resources are sufficient to compensate for the profits that can be generated from expansion, the franchisor will no longer rely on franchisees and may utilize internal resources to purchase back the franchisees to generate more profits (Castrogiovanni, Combs, & Justis, 2006a).

4.9. Information asymmetry theory

Franchise systems are exposed to the problem of information asymmetry, in which franchisors have more internal information than franchisees do. This makes it easy for franchisors to seek private gains at the cost of franchisees. The fact that the franchisors know more will raise franchisees' suspicions, accelerating franchise system collapse. Therefore, the ability to manage information asymmetry in a franchise system is of great importance; it reduces the risks of moral hazard (Puciato, & Mrozowicz, 2013) and increases organizational stability. Therefore, when franchisees join, franchisors and franchisees must establish a trust relationship and relationship norms through mutual communication. In addition, the two parties must sign a formal and binding contract (Gassenheimer, Baucus, & Baucus, 1996) to minimize information asymmetry and prevent franchise system collapse. The research reviewed in the present study revealed that prior to the signing of affiliate agreements, franchisors are in an absolutely dominant position and thus have the obligation to disclose relevant information (e.g., Yang, 2016). In addition, the examined studies have investigated workplace ethics from the perspective of information asymmetry (Lee, 2002).

4.10. Transaction cost theory

Transaction cost theory originated from Coase's idea of transaction cost economy (1937). The theory operates on the basic assumptions of bounded rationality and opportunism. Coase argued that the choice between market and hierarchy governance structures is primarily determined by the transaction costs involved. However, direct measurement of transaction costs is difficult and thus rarely cited (Geyskens, Steenkamp, & Kumar, 2006).

In 1975, Williamson continued to study transaction cost theory and divided it into ex-ante and ex-post transaction costs (Williamson, 1985, p.20). The theory subsequently underwent numerous revisions and expansions and has become a novel theory with many empirical developments (Geyskens, Steenkamp, & Kumar, 2006).

Franchising is a crucial strategy for reducing transaction costs and is an excellent example of an alliance. Because transaction costs are easily generated during internal and external coordination activities such as negotiations, supervisions, and economic exchanges, franchises employ their unique governance models (Stanworth, & Curran, 1991) to reduce the chances of opportunism (which jeopardize the entire organization) and facilitate effective resource distribution (Spinelli, & Birley, 1996). In addition, because franchisors are easily influenced by opportunism, when franchise performance shows stagnant or negative growth, franchisors will have no incentive to comply with their obligations. This leads to franchisees leaving the system and discourages potential franchisees from joining it (Chen, & Dimou, 2005). Similarly, franchisees' opportunistic behavior will also increase the franchisors' transaction costs (i.e., bargaining, supervision, and adaptation costs). However, cooperation between the two parties will reduce bargaining costs, and formalized (standardized) control structures will reduce opportunistic behavior (Dahlstrom, & Nygaard, 1999). Chen & Dimou (2005) indicated that international hotel groups who recruit franchisees are exposed to two risks, namely knowledge leaks and opportunism. Organizational governance structures generally use long-term contracts to diminish bounded rationality (Williamson, 1985). However, despite franchise contracts being able to effectively prevent monopolies and resolve bounded rationality, they may also increase opportunistic behavior (Williamson, 1976). Thus, franchisors and franchisees must consider these contracts in tandem (Solis-Rodriguez, & Gonzalez-Diaz, 2012; Sashi, & Karuppur, 2002). In a global franchise system, contract provisions are usually established to prevent unexpected events led by bounded rationality from occurring (Sashi, & Karuppur, 2002). This endeavor is an example of how transaction cost theory is applied to franchise systems (Contractor, & Kundu, 1998). In summary, this study argued that the transaction cost theory can be used to

explain the bounded rationality, opportunism, and phenomena that occur in franchise systems.

5. Concluding Remarks

Franchise systems have contributed greatly to the development of the Taiwanese economy and have become one of the main governance structures used by new businesses in Taiwan. This paper analyzed the current developmental state of research on franchise systems in Taiwan, and the results may serve as a reference for scholars in their future research.

Study limitations

Franchise systems are a unique, hybrid form of organization that is subject to almost all types of phenomena that can occur in organizations. Therefore, it is insufficient to study only entrepreneur traits; motivations for joining (or opening) a franchise system; performance; business types; and knowledge, technologies, and innovations. In addition to enriching the wealth of data on the aforementioned subjects, future researchers may investigate other topics related to franchise systems. Because this study only examined studies published by TSSCI, it failed to include those conducted in Taiwan but published by international journals. Accordingly, studies published by SSCI may be included in future research to gain clearer insight into topics related to franchise systems.

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