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Franchising as a Means of Business and Economic Development

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ABSTRACT

Franchising has emerged as an important business model for expanding enterprises into new markets through established brands, operational systems, knowledge, and business networks. This study examines franchising as a means of business and economic development, focusing on business expansion, economic growth, partnership development, and institutional and legal conditions. The study employs a qualitative descriptive approach based on a literature review of relevant studies on franchising, international franchising, business development, economic development, and franchise partnerships. The findings demonstrate that franchising facilitates business expansion by enabling firms to enter new markets with relatively limited resources while providing franchisees with established business models and market strategies. Franchising also contributes to employment, entrepreneurship, innovation, competitiveness, and broader economic, social, institutional, and infrastructural development. However, its effectiveness and sustainability depend on franchisor–franchisee relationships, innovation, adaptability, government support, and appropriate institutional and legal frameworks. The study concludes that franchising is not only a commercial expansion strategy but also a potential instrument for broader economic development.

Keywords: *Business Expansion, Economic Development, Franchising, Franchise Partnerships, Institutional Framework.*

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1. | INTRODUCTION

The development of increasingly competitive markets has encouraged businesses to seek strategies that enable them to expand their operations, strengthen their market position, and reach consumers beyond their traditional geographical boundaries. In this context, franchising has emerged as an important business model that enables firms to expand through cooperation between franchisors and franchisees. Franchising provides opportunities for business expansion by allowing franchisees to operate using an established brand, business system, technology, and market strategy, while franchisors can extend their market presence without relying entirely on their own resources. This makes franchising particularly relevant as a means of business and economic development (Alon et al., 2021).

The relevance of franchising is also reflected in its ability to support economic development beyond the interests of individual firms. Empirical evidence from 49 countries demonstrates that franchising contributes positively not only to economic development but also to social, institutional, and infrastructural development. The positive effects are particularly evident where franchise systems have developed over a longer period, suggesting that franchising can generate broader spillover effects within national economies (Lanchimba et al., 2024). Furthermore, franchising has been identified as a flexible form of interaction for small businesses and as a mechanism for adapting business relationships to changing market conditions (Ganebnykh et al., 2018).

From the perspective of business growth, franchising offers advantages to both parties. Franchisees can enter markets using established brands and ready-made business operations, thereby reducing some of the uncertainty associated with establishing a new business. At the same time, franchisors can expand into new markets through a network of independent business partners. Abdul Ghani et al. (2022) indicate that product and service innovation, tolerance within franchisor–franchisee relationships, and government support are important factors influencing franchise growth. The development of franchise networks is also influenced by institutional conditions, including political, economic, legal, and regulatory environments, particularly when firms enter emerging markets (Aliouche et al., 2015).

Franchising may further contribute to structural changes within industries. Beere (2017) demonstrates that franchising can transform industry structures from fragmentation toward consolidation, indicating that its influence extends beyond individual firms to the organization of entire industries. In addition, franchising can strengthen business partnerships by creating cooperative relationships designed to generate synergistic economic benefits, while technological developments continue to transform the way such partnerships are organized (Androsova & Sogacheva, 2020).

However, the expansion of franchising also requires attention to the institutional and contractual framework governing relationships between franchisors and franchisees. The literature indicates that international franchising remains influenced by factors such as cultural sensitivity, institutional distance, management motivation, network complexity, and financial performance (Rosado-Serrano et al., 2018). The existing literature also shows that agency theory, resource acquisition theory, transaction cost analysis, signaling theory, property rights theory, and institutional theory have been widely used to explain franchise relationships and development (Varotto & Aureliano-Silva, 2017).

Therefore, franchising should not be viewed solely as a mechanism for commercial expansion, but also as a potential instrument for broader economic development. Its contribution may include business growth, employment opportunities, market expansion, innovation, and wider social and institutional benefits (Lanchimba et al., 2024). At the same time, the contractual relationship requires clear rights and obligations to minimize potential risks and protect the interests of the parties involved. This study also emphasizes that a thorough review of business partners and franchise agreements is essential before entering into a franchise relationship. Based on this context, this study examines franchising as a means of business and economic development, focusing on its role in business expansion, economic contribution, partnership development, and the importance of an appropriate legal framework in supporting sustainable franchise relationships.

2. | LITERATURE REVIEW

Franchising as a Business Expansion Strategy

Franchising has increasingly become an important strategy for businesses seeking to expand their operations into new markets. Through franchising, the franchisor allows the franchisee to use an established brand, business system, technology, and operational knowledge, enabling business expansion without requiring the franchisor to provide all of the capital and resources independently. Alon et al. (2021) identify international franchising as a mode of market entry that enables firms to develop new markets with relatively limited resources and lower levels of risk. However, this may also involve reduced managerial control.

The attractiveness of franchising also lies in the ability to replicate an established business model. Franchisees obtain access to recognized brands and ready-made operational systems, which can reduce the uncertainty normally associated with establishing a new business. Abdul Ghani et al. (2022) emphasize that franchising provides opportunities both for established firms seeking expansion and for entrepreneurs who want to operate businesses using an existing brand and business model.

Furthermore, franchising can contribute to changes in industry structures. Beere (2017) explains that franchising can transform industries from fragmented structures toward greater consolidation by facilitating the expansion of established business systems. Prykhodko and Ohinok (2019) similarly demonstrate that franchise network age, network size, franchise fees, and investment levels are associated with franchise development and expansion. Thus, franchising represents not merely a contractual arrangement but also a strategic mechanism for scaling business operations and strengthening market competitiveness.

Franchising and Economic Development

The contribution of franchising extends beyond the expansion of individual businesses and can influence broader economic development. Lanchimba et al. (2024), based on evidence from 49 countries, find that franchising has positive effects on economic, social, institutional, and infrastructural development. Their findings further suggest that countries with more established franchise sectors may obtain stronger positive spillover effects from franchising activities.

Franchising can also support the development of small businesses and stimulate economic activity by creating opportunities for entrepreneurs to participate in established business networks. Ganebnykh et al. (2018) describe franchising as a flexible form of interaction within small business and argue that changing market conditions require new mechanisms of cooperation among economically active market participants. In this context, franchising may facilitate the transfer of business knowledge, operational practices, technologies, and established market strategies.

The economic significance of franchising is also related to innovation and competitiveness. Prykhodko and Ohinok (2019) argue that franchising can enhance the efficiency and competitiveness of national economies by facilitating the introduction of innovative business practices and supporting the expansion of franchise networks. Moreover, Lanchimba et al. (2024) emphasize that franchisors entering emerging and developing economies can generate broader spillover effects because they function not only as profit-oriented entrepreneurs but also as contributors to social, institutional, and infrastructural development. Therefore, franchising can be understood as a business mechanism with potential implications for both enterprise-level growth and wider economic development.

Institutional, Legal, and Partnership Dimensions of Franchising

The effectiveness of franchising depends not only on the economic advantages of the business model but also on the quality of relationships and institutional environments surrounding franchise arrangements. Aliouche et al. (2015) demonstrate that the development of franchising in emerging countries is influenced by political, economic, institutional, legal, and regulatory conditions. These institutional factors can affect the success or failure of franchise chains entering new markets.

The relationship between franchisors and franchisees is another important dimension. Androsova and Sogacheva (2020) conceptualize franchising as a form of business partnership designed to achieve common economic interests and synergistic benefits. Their study highlights the strategic advantages that can arise when business relationships are structured through franchise mechanisms. Abdul Ghani et al. (2022)

further identify franchisor–franchisee tolerance, product and service innovation, and government support as important factors influencing franchise growth.

At the international level, franchise relationships can become more complex because differences in culture, institutional environments, and market conditions may influence partnership outcomes. Rosado-Serrano et al. (2018) identify cultural sensitivity, institutional distance, management motivation, network complexity, and financial performance as areas requiring greater attention in international franchising research. Similarly, Varotto and Aureliano-Silva (2017) show that agency theory, transaction cost theory, signaling theory, resource acquisition theory, and institutional theory provide important perspectives for understanding franchise relationships. Thus, clear contractual rights and obligations, appropriate institutional support, and effective partnership management are essential for reducing risks and sustaining franchise development.

3. | RESEARCH METHOD

This study employs a qualitative descriptive approach to examine franchising as a means of business and economic development. The method is designed to provide a conceptual understanding of franchising by examining its role in business expansion, economic development, business partnerships, and the institutional and legal conditions that influence franchise relationships. This approach is consistent with the nature of the study, which focuses on synthesizing existing academic perspectives rather than testing a statistical hypothesis.

The research is based primarily on a literature review of relevant academic publications concerning franchising, international franchising, business development, economic development, and franchise relationships. The literature reviewed includes studies examining franchising across different countries, emerging markets, small businesses, and international business environments. Particular attention is given to studies addressing the relationship between franchising and country development, factors affecting franchise growth, institutional environments, and strategic business partnerships.

The analysis is conducted through several stages. First, relevant literature is identified and organized according to its relationship with the research topic. Second, the selected studies are examined to identify recurring concepts concerning the function and benefits of franchising. Third, the findings are thematically synthesized into three major dimensions: (1) franchising as a business expansion strategy, (2) franchising and economic development, and (3) institutional, legal, and partnership dimensions of franchising. This thematic structure reflects the main issues identified in the reviewed literature.

The study also uses a comparative interpretive analysis to identify similarities and differences among previous studies. For example, Lanchimba et al. (2024) examine the broader contribution of franchising to economic, social, institutional, and infrastructural development, while Abdul Ghani et al. (2022) focus on factors influencing franchise growth from franchisor and franchisee perspectives. Meanwhile, Aliouche et al. (2015) emphasize the importance of institutional and regulatory environments in international franchise expansion.

Finally, the findings from the literature are interpreted in relation to the central argument of the study: franchising can function not only as a mechanism for expanding individual businesses but also as a potential instrument for broader economic development when supported by effective partnerships, appropriate institutional conditions, and clear contractual arrangements. This methodological approach allows the study to integrate different theoretical and empirical perspectives while maintaining its focus on franchising as a means of business and economic development.

4. | RESULTS

The analysis of the selected literature demonstrates that franchising functions as more than a contractual mechanism for transferring a brand from a franchisor to a franchisee. The reviewed studies indicate that franchising represents an integrated business system through which firms can achieve expansion, facilitate knowledge and technology transfer, strengthen entrepreneurial activity, and generate broader economic effects. This finding is consistent with Alon et al. (2021), who characterize franchising as a model that enables firms to achieve scale with limited resources, while international franchising provides an opportunity to enter new markets with comparatively lower resource requirements and risk, although with reduced direct control.

One of the most evident findings is the contribution of franchising to business expansion and market penetration. Franchising allows established firms to replicate their business models across geographical boundaries by combining brand ownership and standardized operational systems with the local resources of franchisees. Abdul Ghani et al. (2022) show that franchising provides opportunities both for established companies seeking expansion and for entrepreneurs seeking to establish businesses through recognized brands and existing operational systems. Their findings identify product and service innovation, franchisor–franchisee tolerance, and government support as important factors supporting franchise growth. This indicates that franchise expansion is not determined solely by the attractiveness of a brand, but also by the capacity of the franchise system to maintain innovation, cooperation, and institutional support.

The literature further indicates that franchising can provide advantages in markets characterized by uncertainty and resource limitations. By adopting an established business model, franchisees can access organizational knowledge, brand recognition, operational procedures, and market strategies that would otherwise require substantial time and resources to develop independently. This characteristic explains why franchising has become particularly relevant to small and emerging businesses. Ganebnykh et al. (2018) identify franchising as a flexible form of interaction in small business and emphasize its relevance to changing market conditions and the need for new mechanisms of cooperation among market participants.

Another important result concerns the structural impact of franchising on industries. Franchising does not simply increase the number of businesses operating under the same brand; it can also influence the organization and competitive structure of an industry. Beere (2017) demonstrates that franchising has the capacity to transform industries from fragmented structures toward consolidation. This suggests that the expansion of franchise networks can contribute to standardization, stronger competitive positioning, and the diffusion of established business practices. Prykhodko and Ohinok (2019) similarly identify franchise network age, network size, franchise fees, investment levels, and royalty arrangements as factors associated with franchise development. Therefore, the scale and maturity of franchise networks are important elements in determining their contribution to business development.

The results also demonstrate a substantial relationship between franchising and broader economic development. Lanchimba et al. (2024), using evidence from 49 countries, find that franchising has positive effects on economic, social, institutional, and infrastructural development. The study further indicates that countries with older and more established franchise sectors can experience stronger positive spillover effects. This finding expands the understanding of franchising from a firm-level growth strategy to an economic development mechanism. The economic contribution of franchising can therefore emerge through business creation, employment, investment, market development, and the diffusion of organizational capabilities.

The findings also show that the contribution of franchising is particularly relevant in emerging and developing economies. Lanchimba et al. (2024) argue that franchisors entering such markets may contribute not only through profit-oriented entrepreneurial activities but also through social, institutional, and infrastructural effects. They further suggest that governments in emerging and developing economies can reduce market-entry barriers and provide incentives for franchise systems in order to strengthen these positive spillovers. This demonstrates that franchising can become a complementary mechanism through which private-sector entrepreneurship contributes to national development.

A further result concerns the role of innovation and competitiveness. Prykhodko and Ohinok (2019) indicate that franchising can increase economic efficiency and the competitiveness of national products by facilitating innovation and enabling firms to enter new markets. This finding is reinforced by Abdul Ghani et al. (2022), whose study identifies product and service innovation as one of the key factors affecting franchise growth. Consequently, franchise systems should not be understood as static arrangements in which franchisees merely reproduce an existing business model. Their long-term development depends on the ability of the system to adapt products, services, and operational practices to changing market conditions.

The analysis further identifies partnership quality as a critical determinant of franchise performance. Androsova and Sogacheva (2020) describe franchising as a form of business partnership directed toward achieving common economic interests and synergistic effects. Their analysis indicates that franchising can provide strategic benefits to participating firms when the relationship is appropriately structured and managed. This finding is important because the success of franchising depends on interdependence between franchisor and franchisee. The franchisor contributes brand reputation, knowledge, systems, and support, while the franchisee contributes capital, local market knowledge, and operational resources.

However, the results also reveal that franchising does not operate independently of its institutional and legal environment. Aliouche et al. (2015) demonstrate that differences in the development of franchise systems across emerging countries can be explained partly by variations in political, economic, institutional, legal, and regulatory environments. Institutional theory therefore complements economic explanations such as agency theory and the resource scarcity perspective in explaining why franchise expansion succeeds in some markets but develops unevenly in others. This finding directly supports the importance of establishing clear rules governing franchise relationships.

The international dimension creates additional complexity. Rosado-Serrano et al. (2018) identify cultural sensitivity, institutional distance, management motivation, network complexity, and financial performance as important areas requiring further attention in international franchising. Thus, a franchise model that performs successfully in one market cannot necessarily be transferred without adaptation to another market. Differences in consumer behavior, institutional arrangements, culture, and regulatory requirements may influence the effectiveness of franchise operations.

The literature also demonstrates that franchising can be understood through several theoretical perspectives. Varotto and Aureliano-Silva (2017) identify agency theory, signaling theory, and resource acquisition theory as major perspectives in franchising research, while institutional theory and the resource-based perspective have also become increasingly relevant. This theoretical diversity indicates that franchising involves multiple dimensions, including resource constraints, control mechanisms, information asymmetry, ownership, institutional legitimacy, and internationalization.

Finally, the findings support the argument that franchising can generate social and developmental effects beyond conventional commercial objectives. Research on social franchising shows that the franchise model can be adapted to address societal and developmental challenges. McKague et al. (2021) demonstrate how social franchising can support local entrepreneurs, improve livelihoods, and achieve financial sustainability while addressing food-security challenges. Similarly, Lawson-Lartego and Mathiassen (2021) find that microfranchising can provide opportunities for scaling entrepreneurship in resource-constrained communities, although contextual adaptability and network management are essential to sustainability.

The results indicate that franchising can serve simultaneously as a business expansion strategy, an instrument of economic development, and a mechanism for structured business partnership. Its effectiveness, however, depends on the interaction between firm-level capabilities, franchisor–franchisee relationships, innovation, market conditions, institutional support, and legal arrangements. Therefore, this evidence supports the study's main proposition that franchising can make a significant contribution to business and economic development, provided that franchise relationships are supported by appropriate institutional conditions, clearly defined rights and obligations, effective cooperation, and the ability to adapt to various market environments. This conclusion is particularly consistent with the cross-country evidence showing that the developmental effects of franchising extend beyond economic activity to social, institutional, and infrastructural dimensions.

5. | DISCUSSION

The findings indicate that franchising should be understood as a multidimensional mechanism for business and economic development rather than merely a method of transferring a brand or business format. The literature demonstrates that franchising enables firms to expand their market presence while utilizing the resources, knowledge, and local capabilities of franchisees. This is consistent with Alon et al. (2021), who identify international franchising as a market-entry mechanism that allows firms to achieve scale with relatively limited resources and risk.

The results further suggest that the economic value of franchising emerges through both direct and indirect effects. Lanchimba et al. (2024) provide particularly strong evidence that franchising contributes not only to economic development but also to social, institutional, and infrastructural development across countries. This finding expands the conventional view of franchising as a firm-level growth strategy and supports its interpretation as a potential contributor to broader national development. The implication is especially relevant for emerging economies, where franchise networks may provide additional entrepreneurial opportunities and generate spillover effects in local economies.

However, the discussion also highlights that the developmental benefits of franchising are not automatic. The effectiveness of a franchise system depends substantially on the quality of the franchisor–franchisee relationship. Abdul Ghani et al. (2022) identify innovation, tolerance between franchisors and franchisees, and government support as important growth factors. Similarly, Androsova and Sogacheva (2020) emphasize franchising as a strategic business partnership capable of generating synergistic economic benefits. These findings suggest that sustainable franchising requires cooperation rather than a purely hierarchical relationship between the parties.

Another important implication concerns the institutional and legal environment. Aliouche et al. (2015) demonstrate that political, economic, institutional, and legal conditions influence the development and internationalization of franchise systems. Therefore, clear contractual arrangements and appropriate regulatory support are necessary to reduce uncertainty and protect the interests of both parties. This is particularly important in cross-border franchising, where cultural and institutional differences may create additional risks. Rosado-Serrano et al. (2018) consequently identify cultural sensitivity, institutional distance, management motivation, and network complexity as important issues in international franchise relationships.

Overall, the discussion confirms that franchising can contribute meaningfully to business expansion and economic development when supported by innovation, effective partnerships, institutional stability, and appropriate legal arrangements. Therefore, this evidence supports the main argument of this study that the success of a franchise depends not only on the strength of its business model, but also on the broader economic and institutional environment in which the franchise operates.

6. | CONCLUSION

Franchising represents an important mechanism for supporting both business expansion and broader economic development. The analysis demonstrates that franchising enables businesses to enter new markets by utilizing established brands, operational systems, knowledge, and networks, thereby reducing some of the resources and risks associated with independent expansion. At the same time, franchise systems can contribute to employment creation, entrepreneurship, innovation, competitiveness, and the development of local economic activities. The contribution of franchising, however, depends on the quality of relationships between franchisors and franchisees, the capacity for innovation and adaptation, and the institutional environment in which franchise activities operate. Effective cooperation, appropriate government support, and clear contractual rights and obligations are therefore essential for minimizing risks and sustaining franchise relationships. Franchising should not be viewed solely as a commercial expansion strategy. It can also function as a broader instrument for economic development when supported by effective partnerships, appropriate institutional frameworks, and responsible business practices. Its potential is particularly significant in emerging and developing economies where franchise networks can contribute to entrepreneurial opportunities and wider economic and social development.

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Declaration of Conflicting Interests

The authors declare that there is no conflict of interest.

Ethical Approval and Originality Statement

Ethical approval was obtained for this study. The manuscript represents original work and has not been previously published, nor is it under consideration by another journal.

Data Disclosure Statement

The data that support the findings of this study are available from the corresponding author upon reasonable request.

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