

## **Management of Risk and Issues in Franchising of Food Brands: An Empirical Study of Franchisee Owners**

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**DOI: 10.48047/jcr.07.08.618**

### **Abstract**

The management of risk and issues in the franchising of food brands is a crucial aspect that requires careful attention and strategic planning. Franchising offers an opportunity for expansion and growth, but it also entails inherent risks and challenges. One of the key considerations is ensuring the selection of suitable franchisees who possess the necessary skills, experience, and financial stability to effectively operate the food brand. Thorough due diligence and background checks on potential franchisees are essential to mitigate the risk of partnering with individuals who may not uphold the brand's standards or fail to comply with legal and operational requirements. Additionally, maintaining open and transparent communication channels with franchisees is vital to address any emerging issues promptly and collaboratively. This includes providing comprehensive training programs, operational guidelines, and ongoing support to ensure consistent quality and adherence to brand standards across all franchise locations. Regular monitoring and performance evaluation mechanisms can help identify potential issues and risks early on, enabling proactive interventions to protect the brand's reputation and maintain customer satisfaction. Effective risk management in franchising also involves staying up to date with relevant regulations, legal obligations, and market trends to mitigate potential legal and financial risks. By proactively managing risks and promptly addressing emerging issues, franchisors can foster a successful and mutually beneficial relationship with their franchisees, driving the growth and success of their food brand.

*Keywords: Management of Risk, Franchising, Food Brands, Expansion, Franchisees, Communication Channels*

## **Introduction**

The management of risk and issues in the franchising of food brands is a critical undertaking that requires meticulous attention and strategic planning. Franchising serves as a pathway for growth and expansion, but it also presents inherent risks and challenges that must be addressed. A key consideration in this process is the careful selection of suitable franchisees who possess the necessary skills, experience, and financial stability to effectively operate the food brand. Thorough due diligence and background checks on potential franchisees are essential to mitigate the risk of partnering with individuals who may not uphold the brand's standards or fail to comply with legal and operational requirements. This initial screening process lays the foundation for a successful and enduring franchisor-franchisee relationship.

Maintaining open and transparent communication channels with franchisees is vital in effectively managing risk and addressing emerging issues in the franchising of food brands. Franchisors must establish robust lines of communication to ensure effective collaboration with franchisees. This includes providing comprehensive training programs, operational guidelines, and ongoing support to facilitate consistent quality and adherence to brand standards across all franchise locations. By offering continuous guidance and assistance, franchisors can empower franchisees to navigate challenges effectively and deliver exceptional customer experiences. Regular monitoring and performance evaluations further contribute to risk management by identifying potential issues and risks early on, enabling prompt interventions to protect the brand's reputation and maintain customer satisfaction.

Effective risk management in the franchising of food brands also necessitates staying up to date with relevant regulations, legal obligations, and market trends. Franchisors must remain vigilant and proactive in their understanding of changing legal frameworks and industry dynamics to mitigate potential legal and financial risks. Adhering to compliance standards and ensuring franchisees are aware of their obligations helps to foster a culture of responsible and ethical business practices. Additionally, actively monitoring market trends allows franchisors to adapt their strategies and offerings accordingly, mitigating the risk of becoming stagnant or irrelevant in a dynamic market. By proactively managing risks and promptly addressing emerging issues, franchisors can cultivate a successful and mutually beneficial relationship with their franchisees, driving the growth and success of their food brand.

## **Literature Review**

An article titled "Towards a Strategic Model of Global Franchise Expansion" presents an innovative approach to assessing the attractiveness of potential expansion target countries for US-based franchise firms. The authors develop a comprehensive quantitative model that combines academic research insights and business practices to create a global index of international franchise expansion. By ranking 143 countries based on their risk/opportunity profiles, the study highlights the significance of various factors in international franchising decisions. (Aliouche & Schlenrich, 2011). Another article provides valuable insights into the relationship between market orientation, competitive strategy, and business performance within the franchising industry. The empirical evidence and analysis presented contribute to the understanding of how top management factors and market orientation influence competitive strategies and subsequently impact the financial and non-financial performance of franchisor companies. The implications discussed in the paper have implications for both researchers and managers seeking to optimize business performance in the franchise industry. (Lee et. al., 2015).

Research provides a valuable overview of the evolution of international franchising theory, showcasing the incorporation of concepts from mainstream marketing theories. The identification of branding theory as a potential area for future research suggests the importance of exploring the role of branding in international franchising. This article serves as a valuable resource for researchers and practitioners in the field, guiding future investigations and contributing to the ongoing development of international franchising theory and practice. (Merrilees, 2014). Another paper fills a critical research gap by examining the consistent influence of franchising on restaurant firms' financial performance over the long term. The study's empirical tests provide compelling evidence that franchising is an effective mechanism for systematically outperforming non-franchise firms. The findings have important implications for both researchers and managers, emphasizing the enduring financial benefits of franchising and highlighting the effectiveness of limited-service operations in enhancing firm value and outperforming competitors. (Hua & Dalbor, 2013).

An article offers valuable insights into the role of external risk perceptions and CEO characteristics in franchising decisions within the hospitality industry. The study enhances our understanding of how individual-level factors influence risk perceptions and their subsequent

impact on the ownership mix of franchised outlets. These findings have implications for both researchers and practitioners, providing a deeper understanding of the dynamics of risk perception in the context of franchising and offering guidance for strategic decision-making in the hospitality industry. (Safón & Escribá-Esteve 2011). Another research makes significant contributions both theoretically and practically. Theoretically, it advances the existing literature by examining the intersection of value and franchising, shedding light on the dimensions of value that shape franchisee perceptions. From a practical perspective, the findings have implications for franchisors, providing guidance on how to develop, deliver, and manage what is valuable to franchisees, with a focus on performance management, financial risk, and relationship quality. The study offers valuable information for franchisors to enhance their understanding of franchisee needs and expectations, ultimately strengthening the franchising relationship. (Grace & Weaven, 2011).

An article makes a valuable contribution to the existing literature by offering an empirical model specific to the international franchising of hotels. The hotel industry has unique characteristics compared to other franchising companies, including high investment capital requirements, maturity in the product life cycle, and a significant level of standardization and globalization in operations. The research recognizes the importance of these distinct characteristics and their influence on the decision-making process of individual hotel chains. The analysis of both data and expert opinions underscores the significance of considering the specific characteristics of hotel chains and their respective segments within the industry. (Alon et. al., 2012). Another paper provides strong evidence supporting the notion that franchising is associated with superior financial performance in the restaurant industry. The study's comprehensive analysis, utilizing multiple performance measures, consistently shows that franchising restaurant firms outperform their non-franchising counterparts. These findings contribute to our understanding of the advantages of franchising as a business form and offer valuable insights for practitioners and researchers in the field of franchising. (Madanoglu et. al., 2011). Research addresses the gap in understanding regarding franchisee non-compliance by examining the role of trust, relational conflict, and satisfaction within the franchise context. The study's model, grounded in relational exchange theory, highlights the importance of trust—both in terms of franchisor integrity and competence—in influencing franchisee compliance. The findings underscore the significance of trust-building efforts and conflict management strategies in

franchise systems. The research offers valuable insights for franchisors, providing guidance on how to effectively manage franchise relationships and enhance compliance, ultimately contributing to the success and performance of franchise systems. (Davies et. al., 2011). Another article sheds light on the factors influencing the quality and evolution of the franchisor-franchisee relationship. Applying a relationship marketing framework, the study emphasizes the significance of effective communication and leadership in building a relationship characterized by trust and commitment. The research contributes to the understanding of managing franchise relationships and provides valuable insights for practitioners seeking to enhance the franchisor-franchisee relationship within their franchise systems. (Watson & Johnson, 2010).

An article highlights the significance of governance mechanisms in managing franchise relationships and ensuring franchisee compliance. The study emphasizes the importance of explicit contracts and information systems as effective control mechanisms, while also acknowledging the limitations of relational norms. The research findings provide valuable insights for franchisors, enabling them to develop an effective control strategy that aligns with their specific franchise systems and mitigates potential risks. (Boulay, 2010). Another paper sheds light on the factors driving franchise network internationalization. The study underscores the importance of intangible resources, particularly brand-name recognition, in facilitating international expansion. Furthermore, the presence of a higher percentage of franchised outlets, as opposed to company-owned outlets, is associated with increased franchise internationalization. The findings contribute to a deeper understanding of the dynamics and determinants of franchise internationalization within a two-country context. (Perrigot et. al., 2013).

**Objective:**

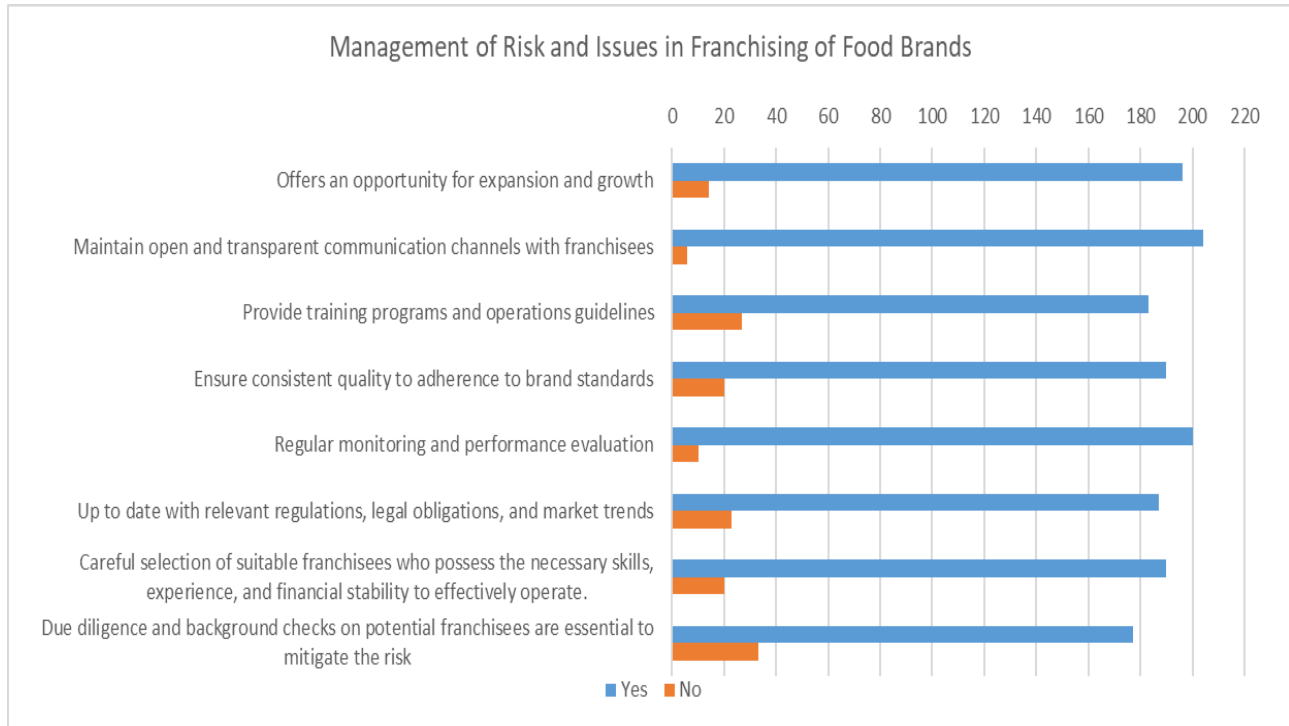
To measure the management of risk and issues in franchising of food brands

**Methodology:**

This study is descriptive in nature in which the data were obtained from the 210 respondents to find the management of risk and issues in franchising of food brands. A checklist question was used to analyze and interpret the data. In a checklist question respondents choose “Yes” or “No” for all the questions.

**Data Analysis and Interpretations:****Table 1 Management of Risk and Issues in Franchising of Food Brands**

<b>SL No.</b>	<b>Management of Risk and Issues in Franchising of Food Brands</b>	<b>Yes</b>	<b>% Yes</b>	<b>No</b>	<b>% No</b>	<b>Total</b>
1	Offers an opportunity for expansion and growth	196	93.33	14	6.67	210
2	Maintain open and transparent communication channels with franchisees	204	97.14	6	2.86	210
3	Provide training programs and operations guidelines	183	87.14	27	12.86	210
4	Ensure consistent quality to adherence to brand standards	190	90.48	20	9.52	210
5	Regular monitoring and performance evaluation	200	95.24	10	4.76	210
6	Up to date with relevant regulations, legal obligations, and market trends	187	89.05	23	10.95	210
7	Careful selection of suitable franchisees who possess the necessary skills, experience, and financial stability to effectively operate.	190	90.48	20	9.52	210
8	Due diligence and background checks on potential franchisees are essential to mitigate the risk	177	84.29	33	15.71	210



**Figure 1 Management of Risk and Issues in Franchising of Food Brands**

Table 1 and Figure 1 show the management of risk and issues in franchising of food brands. It was found that around 97.1% respondents believes that maintain open and transparent communication channels with franchisees, Regular monitoring and performance evaluation (95.2%), Offers an opportunity for expansion and growth (93.3%), Ensure consistent quality to adherence to brand standards (90.4%), Careful selection of suitable franchisees who possess the necessary skills, experience, and financial stability to effectively operate (90.4%), Up to date with relevant regulations, legal obligations, and market trends (89.0%), Provide training programs and operations guidelines (87.1%) and Due diligence and background checks on potential franchisees are essential to mitigate the risk (84.2%).

**Conclusion**

In conclusion, the management of risk and issues in the franchising of food brands necessitates a comprehensive and proactive approach. The careful selection of franchisees based on their skills, experience, and financial stability is crucial to establish a strong foundation for a successful franchisor-franchisee relationship. Thorough due diligence and background checks mitigate the risk of partnering with individuals who may not meet the brand's standards or fail to comply with

legal and operational requirements. Open and transparent communication channels facilitate effective collaboration, allowing franchisors to provide comprehensive training, operational guidelines, and ongoing support to ensure consistent quality and adherence to brand standards across all franchise locations. Regular monitoring and performance evaluations enable prompt identification of emerging issues, facilitating proactive interventions to protect the brand's reputation and maintain customer satisfaction.

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