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Franchising Strategies in Startups: Building an Analytical Framework

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ABSTRACT

Startups are a contemporary business model that repeatedly presents issues related to financial constraints. Recently, the adoption of franchising emerged as a possibility for startups. This study adopts a novel approach in the startup literature to explain the decision-making process for startups formulating franchising strategies. Additionally, an exploratory framework of this process was designed. Multiple-case studies on Brazilian startups that operate through franchised units were carried out. For startups that operate through conventional franchises, the use of third-party capital is predominant, while for those that operate with micro franchises the lack of an employment relationship is determinant.

RESUMEN

Las startups son un modelo de negocio contemporáneo que presenta de manera recurrente problemas relacionados con las limitaciones financieras de las firmas. Recientemente, la adopción de franquicias surgió como una posibilidad para estas nuevas empresas. En este estudio se adoptó un enfoque novedoso en la literatura de startups con el objetivo de explicar el proceso de toma de decisiones de las estrategias de franquicia en startups. Además, se elaboró un marco exploratorio de este proceso. Se llevaron a cabo estudios de casos múltiples sobre startups brasileñas que operan a través de unidades franquiciadas. Para las startups que operan a través de franquicias convencionales, el uso de capital de terceros es preponderante, mientras que para aquellas que operan con micro franquicias, la ausencia de relaciones laborales es determinante.

RESUMO

As startups são um modelo de negócio contemporâneo e que geralmente apresentam questões relacionadas ao financiamento. Recentemente, o franqueamento emergiu como uma possibilidade paras as startups. Uma nova abordagem na literatura sobre startups foi adotada nesta pesquisa objetivando-se explicar o processo decisório de franqueamento em startups. Adicionalmente, foi elaborado um diagrama exploratório deste processo. Estudos de casos múltiplos foram conduzidos com startups brasileiras que atuam por meio de

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unidades franqueadas. As startups que atuam por meio do modelo convencional o fazem principalmente pela mobilização de capital de terceiros, enquanto que aquelas que atuam com micro franquias, a ausência de vínculo empregatício é determinante.

Introduction

Startups are a contemporary and prominent business model and growing in relevance in the global context. Strongly related to information technologies, this type of business can be characterized as temporary organizations (Blank & Dorf, 2012) seeking to develop a scalable business model (Unterkalmsteiner et al., 2016) in a context of extreme uncertainty (Ries, 2011). Such uncertainty causes, to a certain degree, financial restrictions as well as challenges to the expansion of new ventures. Mechanisms, such as relationships with angel investors (Lerner et al., 2018; Shane, 2012), crowdfunding (Schwienbacher & Larralde, 2010; Wald et al., 2019), and participation in startups acceleration programs (Cohen et al., 2019; Wise & Valliere, 2014) are frequently used by startups to mitigate resource constraints. Butler (2018) suggests that another mechanism that can be used by startups to face these hurdles is the use of franchising as a corporate strategy.

Franchising is understood as a business model characterized by the formal relationship between franchisor and franchisee, whereas the former is responsible for the network and the latter for each individual operational unit (IFA, 2020). The importance of this business model is recognized in developed countries, such as the US, as well as in emerging markets, attracting the attention of academics around the world in recent decades (Elango, 2019). The main discussion in the field resides in the motivations that lead an entrepreneur to choose to expand through franchised units instead of opening company-owned subsidiaries. In this context, two main theoretical arguments address this issue, namely resource scarcity theory and agency theory (Diaz-Bernardo, 2012; Gillis & Castrogiovanni, 2012). The arguments presented by the first reflect the need to mobilize resources, especially in the initial stages of a business (Oxenfeldt & Kelley, 1969) and the development of economies of scale (Caves & Murphy, 1976). In turn, the second is supported by the mitigation of agency costs and the greater motivation of a franchisee in comparison to a manager (Brickley & Dark, 1987; Lafontaine, 1992).

The startup franchising approach can be considered a paradox since one of the main characteristics of the franchise system is the replication of something already validated by the market (Rubin, 1978), contrasting with the dynamism and flexibility observed in startups. The contemporary nature of startups brings with it a series of study opportunities, such as the understanding of the effects of building networks (Spender et al., 2017) and partnerships (Santisteban & Mauricio, 2017) in a startup, as well as addressing the effects of changes in firms' business models (Spender et al., 2017). These considerations gain importance given the dearth of academic work that addresses the issue of franchising specifically in the case of startups. In the general context of franchising, Baena and Cerviño (2014) and Fadairo and Lanchimba (2017) point to the need to conduct more studies in Latin America due to the importance of the activity in this particular region.

Through the highlighted research opportunities and the identified theoretical gap, this work aims to explain the decision-making process of startups assessing franchising in light of traditional franchising theories, unfolding in the following specific objectives: (i) delimit and understand the determining factors of a startup's decision to franchise; (ii) compare the franchising process of startups with the traditional business process; (iii) demarcate the advantages and disadvantages of franchising in startups; and (iv) design a framework for a startup's franchising process. The guiding question of the research is to discern the determining factors of Brazilian startups' decision to expand via franchising. The second question, of a complementary character, is to note the similarities and differences of the franchising process of startups compared to traditional businesses.

In this exploratory research, a qualitative methodology was adopted, operationalized by conducting a case study with four Brazilian startups that operate through franchisees. Interviews with brand representatives (entrepreneurs and managers), consultation with specialized media sources, and research on institutional sites/social media were used to collect information and data. Based on this empirical exploration, an analytical framework based on four propositions and a model referring to the franchising process and its strategic aspects are developed. In this way, this research takes a first step toward structuring this field of research according to its specificities.

In addition to this Introduction, this article is composed of five additional sections: theoretical framework, addressing the issue of startups and traditional franchising theories; methodology; description of startups; analysis and framework development; and concluding remarks.

Theoretical framework

This section presents prior research that characterizes both startups and franchises. The first subsection presents the sources of expansion and financing for startups. In addition, in the last subsection, franchising theories are presented, developed from the analysis of traditional businesses. The aspects presented by such theories provide the theoretical basis for conducting this research and helped in the development of instruments for data collection and construction of the proposed analytical framework.

Startups: characteristics and sources of expansion/financing

Startups figure as a relevant research topic within the area of entrepreneurship (Castriotta et al., 2019). One of the justifications for the growing number of works on this type of business is its economic relevance, and one of the most widely-accepted definitions for this type of business is that of Blank and Dorf (2012, p. xvii): "*a startup is a temporary organization in search of a scalable, repeatable, profitable business model.*"

The potential for growth and/or future scalability can be considered as the defining characteristics of this type of company (Blank & Dorf, 2012; Ries, 2011; Unterkalmsteiner et al., 2016). One of the reasons for this scalability is related to the fact that startups are developed to facilitate and solve complex issues of their customers (Hernández & González, 2016). In this context, one important attribute often related to startups is their pivoting capabilities, that is, the ability to promote radical changes in a business model (Hampel et al., 2020) and generate a certain degree of flexibility in strategic reorientation processes (Kirtley & O'Mahony, 2020).

The degree of uncertainty involved in the development of a startup involves a series of financial and managerial barriers that this type of company must face. Resources from financial institutions and formal sources of investment tend to be used only after the business has matured (Čalopa et al., 2014). In this sense, several mechanisms can be adopted in the search for financial sustainability. Among them we can highlight the partnership with angel investors (Lerner et al., 2018; Shane, 2012); the adoption of crowdfunding—a mechanism that enables fundraising from individual investors, regularly operated through online platforms (Schwienbacher & Larralde, 2010; Wald et al., 2019); or even participation in startup acceleration programs—a way for startups to approach potential investors and promote networking with other components of their respective ecosystems (Cohen et al., 2019; Wise & Valliere, 2014).

The possibility of franchising, addressed by Butler (2018), reflects another mechanism that can be explored by startups in the development of their business. However, searches conducted in Scopus and Web of Science did not identify any academic work that specifically addresses the issue of franchising in the context of startups, thus warranting the novelty of this approach.

Franchises: characteristics and franchising theories

Franchising is a business model in which a hierarchical relationship between franchisors and franchisees materializes. As highlighted by IFA

(2020), in this arrangement, the franchisor provides, in addition to its name, products, and services, a series of mechanisms that enable the operation of the business. Two main franchise models can be used: conventional franchises, in which a model developed and tested by the parent unit is replicated; and the micro franchise model, usually requiring lower initial investments and not necessarily involving the hiring of employees and operation through physical space (Melo et al., 2014).

The franchising arrangement, widespread in contemporary economies, reflects advantages for both actors involved. In the view of franchisees, the main advantage relates to investing in a business already validated by the market (Salar & Salar, 2014)—a less risky way to become an entrepreneur—and consequently obtaining self-fulfillment and autonomy (Hizam-Hanafiah & Li, 2014). In the franchisor's view, the decision to franchise is mainly justified by the arguments proposed by traditional franchising theories, the main theoretical discussion in the field since the late 1960s (Diaz-Bernardo, 2012; Gillis & Castrogiovanni, 2012).

The first justifications for the decision to franchise were presented by authors aligned with the resource scarcity theory. According to Robbins (1945), scarcity refers to the mismatch between a given occurrence and the demand for something. In the context of franchising, it could be understood that this mismatch refers to the demand of entrepreneurs for resources to expand their business. In this theoretical framework, the decision to franchise is justified, not by a preference of the franchisors, but by the need to raise funds, especially financial and human, at the beginning of business operations (Oxenfeldt & Kelley, 1969). Diaz-Bernardo (2012) summarizes that through the lens of resource scarcity theory, the decision to franchise is the cheaper and easiest way for a business to expand its operations.

Additionally, the development of economies of scale, accelerated by the opening of franchised units (Caves & Murphy, 1976) and the knowledge of local markets by franchisees (Oxenfeldt & Kelley, 1969) are related to this perspective. Over time, a percentage reduction of franchised units is usually observed, driven by conversions of the most profitable franchised units (Hsu et al., 2010; Oxenfeldt & Kelley, 1969).

Because the focus of franchising decisions—from a resource scarcity perspective—is during the first years of operation, it is difficult to conduct empirical studies to confirm the points presented by the theory, due to the existing temporal bias (Gillis & Castrogiovanni, 2012). However, some studies have empirically verified aspects that can be related to this view. Bitti et al. (2019), for example, have identified a tendency to increase wholly-owned subsidiaries in successful networks. Corroborating this perspective, it was found that franchises allow greater flexibility of financial policies in the food sector (Seo, 2016) and that this flexibility functions as a way for companies to resolve issues related to underinvestment (Seo et al., 2018).

The main idea proposed by agency theory regards the relationship between principal and agent, where the former hires the latter to execute a service (Jensen & Meckling, 1976). In the context of franchising, the franchisor (principal) "*hires*" the franchisee (agent) as a way of promoting the mitigation of agency costs involved in the expansion of a brand (Brickley & Dark, 1987; Lafontaine, 1992). In the authors' view, the high costs involved in opening own units, especially monitoring costs, in the case of geographically dispersed units, justify the option for franchised units. Complementary arguments to this theory include the higher levels of motivation of franchisees justified by variable remuneration linked to the profit of the unit (Barthélemy, 2011; Brickley & Dark, 1987; Lafontaine, 1992).

Empirical tests carried out by Combs and Ketchen (2003) confirmed the relationship between geographical dispersion and the use of franchised units. In the Brazilian case, Bitti et al. (2019) found a trend toward the use of franchised units in less developed cities, which consequently would involve higher monitoring costs.

Castrogiovanni et al. (2006) seek to reconcile both theoretical perspectives. In their view, the resource scarcity theory is relevant mainly for small companies in their initial moments, while agency theory is more aligned with the firm evolution observed in this model. Nevertheless, such contributions are in line with traditional business models, possibly offering incomplete directions for the dynamics observed in the context of startups, especially considering their specificities regarding the organizational flexibility and characteristics of adopted business models.

Methodology

This research used a qualitative methodological approach and was operationalized by conducting a multiple case study (Yin, 2017). The chosen approach is justified by the contemporaneity and originality of the theme addressed. In Eisenhardt's (1989) perspective, studies of this nature enable the development of new theories since they have as their basic assumption the generation of hypotheses that can be tested in future studies. Thus, in this research, the inductive perspective was adopted (Eisenhardt, 1989), in which, based on the observation of reality (cases studied), we developed propositions (framework presented in the Results section) to offer an analytical framework for this specific field of research.

Analytical units were defined in this research as startups that operate through franchised units within the Brazilian context. The conceptual inaccuracy involved in defining what makes a company a startup encouraged the adoption of an objective criterion for the selection of cases. For operational purposes, potential participants were companies that are registered in the Brazilian Startup Association. The entity makes available on its website a database (StartupBase) containing all registered companies. To select the cases, a search was carried out with the database using keywords related to the franchise system (franchise, franchisor, and franchising). In all, the consultation yielded 104 companies. Next, we carried out the analysis of the profiles of each of these companies and consulted their respective institutional websites. The objective of this step was to verify which companies explicitly operate through franchised units. Most of the companies consulted were not yet in operation or were companies that provided services to franchises. At the end of the consultation, based on the adopted criteria, we reached a population of eight Brazilian startups that operate through franchised units. During the first half of 2020, invitations to participate were sent to these companies. At the end of this process, four companies agreed to participate in the research.

Information was collected in three ways: (i) conducting in-depth interviews with entrepreneurs and/or company managers; (ii) analysis of institutional websites and social media of the brands; (iii) consultation with specialized media sources in the business area. The first and most important investigative technique was conducted between April and May 2020. The objective was to conduct two interviews per company, however, due to the limitations presented, this was only possible in two cases. Interviews were conducted in their entirety through online platforms, with an average duration of about 40 min, and were recorded and transcribed for analytical purposes. Table 1 presents information regarding the analyzed startups and their respective interviewees.

Interviews were guided by a semi-structured script developed from the literature review and consisting of seven sections: Company Information; Company Conception; Expansion Strategy; Franchising Decision; Functioning of Franchises; Perceptions; and COVID-19 Crisis Management. The fourth section of the script, "Franchising Decision," asked each respondent to rate the degree of importance on a 5-point scale (1 = irrelevant; 2 = not relevant; 3 = neutral; 4 = very relevant; and 5 = determinant) of previously selected factors, related to traditional franchising theories, for the franchising decision of its startups. Table 2 shows the factors that made up this section. The main information obtained in the interviews is presented in the next section.

Information obtained from other investigative techniques was used to triangulate the information obtained from interviewees, especially related to the trajectory of the companies and the number of franchised units.

Table 1. Identification of interviewees and startups.

Startup	Field of activity	Interviewee	Interviewee's position	Academic degree	Age
Startup 1	Information Technology and Services	Interviewee 1	Cofounder and Responsible for the R&D Sector	PhD in Physics	36
Startup 2	Educational Management	Interviewee 2	Cofounder and CEO	Master's in Law and MBA in Strategic Business Management	37
		Interviewee 3	Responsible for Corporate Development	Incomplete Higher Education	23
Startup 3	Insurance	Interviewee 4	Cofounder and CFO	Master's in Public Administration and Bachelor's in Social Sciences	36
		Interviewee 5	Cofounder and COO	Bachelor's in Business Administration & Tourism and Hospitality	34
Startup 4	Marketing Materials	Interviewee 6	Cofounder and Responsible for the Marketing Sector	Incomplete Higher Education	28

Source: The authors.

Table 2. Factors for franchising decision and franchising theories.

Factors	Theory	References
Mobilization of Financial Resources	Resource Scarcity Theory	Diaz-Bernardo, 2012; Oxenfeldt & Kelley, 1969; Seo, 2016
Mobilization of Human Resources	Resource Scarcity Theory	Oxenfeldt & Kelley, 1969
Development of Economies of Scale	Resource Scarcity Theory	Caves & Murphy, 1976; Diaz-Bernardo, 2012
Franchisee's Local Knowledge	Resource Scarcity Theory	Oxenfeldt & Kelley, 1969
Minimization of Monitoring Costs	Agency Theory	Brickley & Dark, 1987; Lafontaine, 1992
Franchisee's Commitment	Agency Theory	Barthélemy, 2011; Brickley & Dark, 1987; Lafontaine, 1992
Franchisee's Innovativeness	–	Proposed by the authors

Source: The authors.

Finally, we conducted a content analysis technique (Bardin, 1977), operationalized through the NVivo 12 software, enabling the coding of the transcribed interviews according to the factors previously selected (Table 2).

Description of startups

Startup 1, founded in 2018 in Teresina (State of Piaui), has 10 franchisees in operation. The founder of Startup 1, who holds a Ph.D. in Physics, developed a theoretical foundation and methodology for teaching robotics to Brazilian students. The startup operates in the commercialization and implementation of the method in schools. The company plans are to open units in all states of the country, promoting closer contact with customers. For that purpose, franchising is a key aspect.

Startup 2 was conceived by an entrepreneur who has 10 years of experience as a franchisee in a foreign language teaching franchise. The purpose of the company, which started in Curitiba (State of Paraná) in 2017, is to teach English through the application of tools developed by the startup (machining learning, big data, AI, virtual reality). This EdTech was created to operate through franchised units and has 26 franchisees. The objective of Startup 2 is to expand in Brazil and then in other Latin American countries.

Different from the first two, Startup 3 operates through micro franchisees. Entrepreneurs with experience in the insurance segment identified the opportunity to market products for the "new Brazilian middle class" (classes C–D) and conceived the startup in Belo Horizonte (State of Minas Gerais); operations began in 2018. The micro franchisees are responsible for contacting the brand's target consumers and marketing its insurance products. The company has more than 20 franchisees with no employees or physical space.

Founded in 2017 in Caxias do Sul (State of Rio Grande do Sul), Startup 4 has developed an online platform where machines, obsolete inventory, scrap, and waste are traded (revenue is a percentage of deals closed on the platform). The company operates with micro franchises that work to capture and support customers. They are responsible for taking photos and doing product registration on the platform. Startup 4 has counts seven micro franchisees.

Analysis and framework development

Before addressing the objectives highlighted in this research, a brief discussion of the cases presented as the startups is due. Despite the recurring discussions in the literature (Castriotta et al., 2019), there is no widely accepted concept for the startup. In this sense, the list of characteristics previously identified seems to be sufficient to qualify all of the companies in question as startups. Notably, the cases presented constitute innovative businesses, in which a scalable business model (Unterkalmsteiner et al., 2016) was developed in an uncertain scenario (Ries, 2011). The only doubtful aspect refers to the consideration of a startup as a temporary or initial organization (Blank & Dorf, 2012). It can be interpreted that the fact that the startups in question are franchisors accelerated this maturation period since the organization and standardization are inherent aspects of this business model. The fact that all the businesses presented were already conceived with the idea of operating through franchised units may have accelerated this process.

From the analysis of the cases presented, the possibility that startups that choose to franchise do so through two models is evident. The first model, the conventional franchise, represented in this research by Startups 1 and 2, is characterized by the replication of a base model developed by the franchisor (Rubin, 1978), in which both the activities of the original unit as those of franchised units are essentially the same. On the other hand, as in the case of Startups 3 and 4, the micro franchise model appears as a second option, characterized by lower investment rates, as well as non-mandatory hiring of labor or provision of physical space (Melo et al., 2014). Through the analysis of the cases, it can be observed that the determining factors of the decision to franchise are directly related to the franchise model adopted.

Regarding the determinants of franchising strategies in startups, the central point of discussion in this article, two forms of analysis were conducted. The first was the analysis of section four of the interview script, in which each of the participants ranked on a 5-point scale the degree of importance of each of the factors previously selected for their startup's franchising decision. The second form of analysis included the coding of the transcribed interviews, except section four, also based on the previously selected factors. The purpose of this analysis was to match excerpts mentioned spontaneously by each of the interviewees with selected factors. The combined results of the two analyses are shown in Figures 1–4 for each startup. The horizontal coordinate plotted in the graphs reflects the value assigned to the scale in section four, while the vertical coordinate was obtained by the number of mentions coded in the rest of the interviews. For Startups 2 and 3, in which two interviews were conducted, the simple average of the values obtained with the participants in both coordinates was considered.

In the classification carried out by Interviewee 1, all factors except for Mobilization of Human Resources were presented as determinants (5). However, in the spontaneous analysis, this aspect and Mobilization of Financial Resources were the most mentioned by the participant. It can be understood, therefore, that Mobilization of Financial Resources was more important for the franchising decision of Startup 1. According to Interviewee 1, the capture of investments, through the franchise fee, without the commitment of the company's own capital, was the company's easiest way to expand its operations, thus aligning itself with the main factor presented by the resource scarcity theory (Diaz-Bernardo, 2012; Oxenfeldt & Kelley, 1969; Seo, 2016). As argued by Interviewee 1, franchising:

> "[…] was a way of obtaining investment for the company without losing equity share […] BRL 2.5 million were injected into the company, using a franchise fee with a different nature than if I had invested in assets. These people are my partners in a way, but the legal relationship is totally different."

There was a strong divergence in the classification presented by Interviewee 2 and Interviewee 3, with convergence between the values

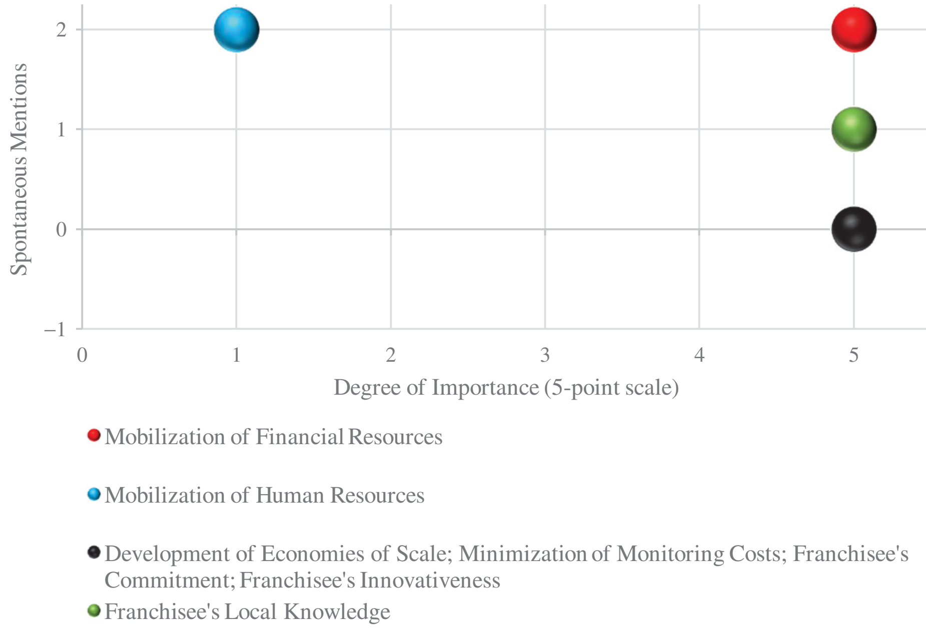

Figure 1. Determinant factors for franchising decision—startup 1.

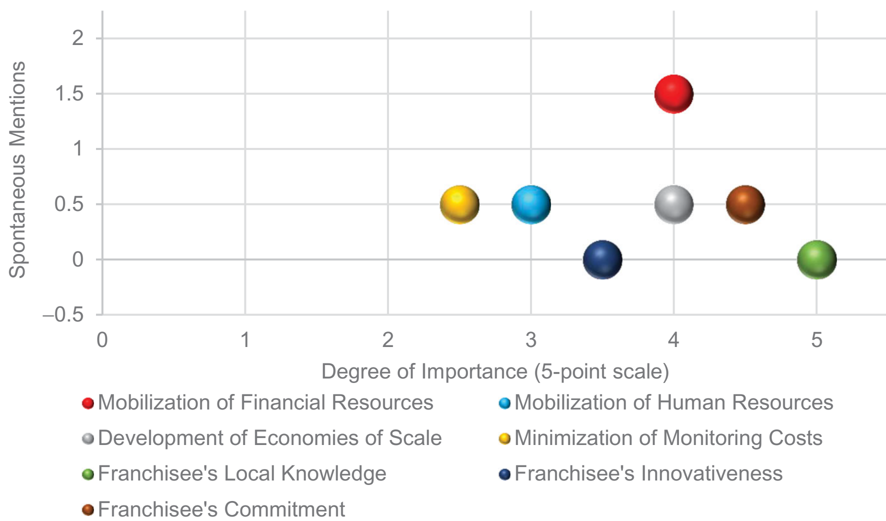

Figure 2. Determinant factors for franchising decision—startup 2.

attributed only in the Franchisee's Local Knowledge factor, classified as a determinant (5). However, aspects related to this factor were not mentioned spontaneously by any of the interviewees. Spontaneously, the factor most mentioned by the interviewees was the Mobilization of Financial Resources. It is also noteworthy that in the classification of Interviewee 2, CEO and co-founder of the company, this factor was presented as a determinant (5). In his view, the fact that the new units were opened without the commitment of equity capital was the determining factor for choosing

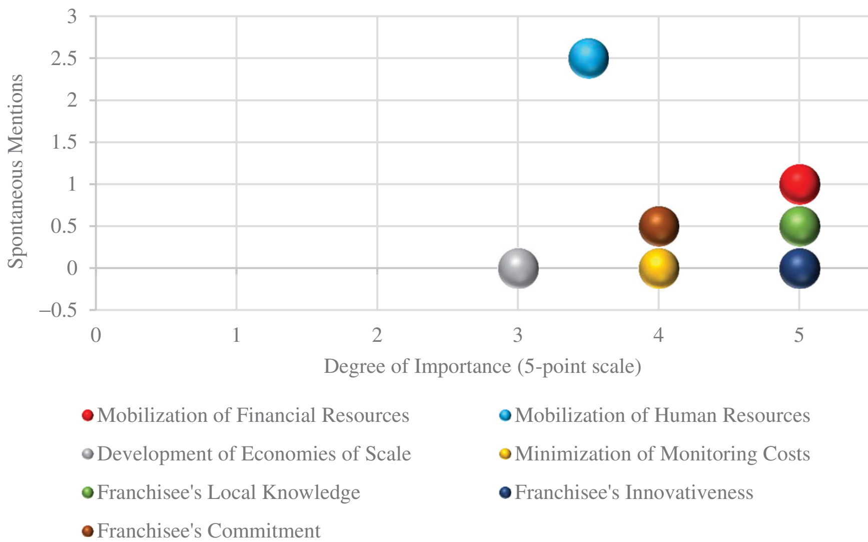

Figure 3. Determinant factors for franchising decision—startup 3.

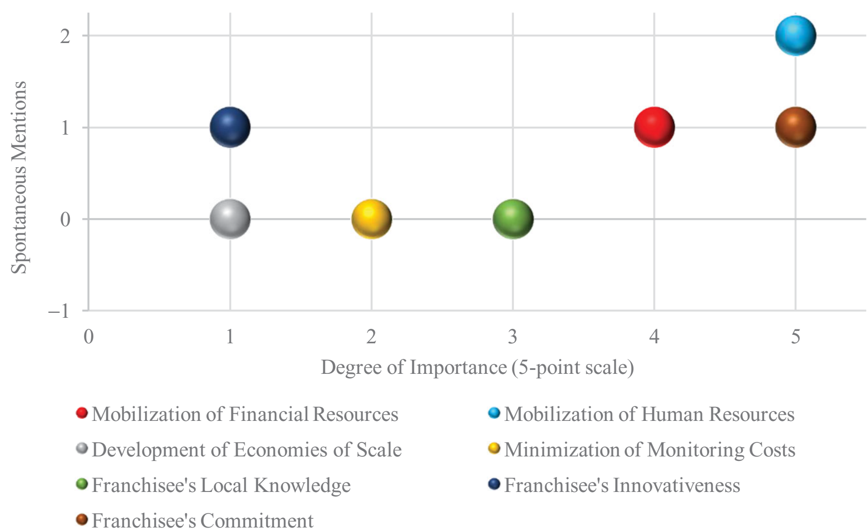

Figure 4. Determinant factors for franchising decision—startup 4.

this model, one that also enabled the startup's investments to be directed at consolidation of the products offered, as highlighted in the following passage:

> "The franchise is the easiest way for us to be able to scale because you are growing with the capital of the franchisees and not of the company itself […] we preferred to invest in products rather than invest in our own schools."

Thus, one can consider this factor, linked to the resource scarcity theory (Diaz-Bernardo, 2012; Oxenfeldt & Kelley, 1969; Seo, 2016) as having been the main driver of the decision to franchise.

Despite not having obtained the highest values in the classification carried out by Interviewee 4 and Interviewee 5, the Mobilization of Human Resources factor at Startup 3 was the one that obtained the most spontaneous mentions in the entire survey. The use of social capital and the franchisees' relationship network, highlighted by the first participant, and the absence of an employment relationship, legally shielding the company, as argued by the second, are some examples of aspects related to this assumption espoused by the resource scarcity theory (Oxenfeldt & Kelley, 1969). As argued by Interviewee 4:

> "My best-selling product is a life insurance policy with an average premium of BRL 44. If I had a formally employed salesperson and taking into consideration the commission, I would have to sell a lot of this product just to reach breakeven."

In the second level of importance, there is the Mobilization of Financial Resources. However, in the case of Startup 3, this aspect is not linked to obtaining resources from the franchise fee or to the need to mobilize equity for opening new units, but rather to the dispersion of revenue sources, as argued by both respondents. The following quote illustrates this perception:

> "In terms of remuneration, it is a 70/30 scheme. As much as I was left with only 30%, I have 30% of something, which is better than having 100% of nothing, […] I diversify my revenue, so I am not tied to two or three big accounts" (Interviewee 5).

Results obtained by the two forms of analysis, in the case of Startup 4, were those that converged to the greatest degree. In the view of Interviewee 6, greater proximity to clients, accompanied by the absence of a proper employment relationship—both aspects related to Mobilization of Human Resources, proposed by the resource scarcity theory (Diaz-Bernardo, 2012; Oxenfeldt & Kelley, 1969; Seo, 2016)—were decisive for the decision to franchise, as illustrated in the following excerpt:

> "We realized that many companies appreciate our business, but they don't have time to take pictures of scrap, old machinery, or surplus inventory. So the franchisee goes to the company, performs a special service, takes photos of the product in the best possible way, describes it on our website, and takes pictures, etc. […] We thought about using sales representatives, but there was the issue of the employment relationship. The franchise is about not to take that risk. It would have to be as lean as possible because we could not have the luxury of creating an employment contract by paying a representative."

In the second level of importance, the question of the Franchisee's Commitment (Barthélemy, 2011; Brickley & Dark, 1987; Lafontaine, 1992) was addressed, which materialized, in the view of Interviewee 6, by the high degree of engagement of a franchisee from his consideration as an entrepreneur.

Through spontaneous analysis, we decided to include an eighth factor, named "Other Factors," where aspects presented by the participants that were unforeseen based on the literature review—probably because they encompass specificities of the franchising process in startups—were grouped. Among these factors we highlight (a) tangibility of the idea, (b) business organization, (c) business appreciation, (d) external consultancy, (e) previous experience in the segment, and (f) benchmarking. The first three aspects were identified in the following passages, respectively:

> "Software startups are generally intangible, and people still don't have a technological feeling to see technology as a product. It is easy to sell some land because it is physical. It is easy to sell an object, but when you are going to sell an idea, it is intangible, so franchising an idea brings security to the franchisor" (Interviewee 1).

> "[…] franchising the brand helped me to organize the company because otherwise it could become a mess. ABF [Brazilian Franchising Association] lists all the procedures I must follow and somehow forces me to keep the company organized" (Interviewee 1).

> "[…] the brand is widespread in Brazil, […] this is appreciated by investors because we sell franchises. So, if we are selling, it means that we have the sale to the intermediary (which is the sale to the franchisee) and we have the sale to the final consumer. If we are selling to the intermediary (to enable us to reach the final consumer) it means that the business is well structured and has a future" (Interviewee 3).

Another aspect of divergence between the franchising of startups and traditional businesses lies in the question of the contractual mix. In the cases analyzed, the interviewees highlighted that they did not intend to open new own units beyond those that originated the brands. An exception to this occurs at Startup 2, in which the company's directors also have franchised units, but without ownership ties with the franchisor. This situation contrasts with the tendency to maintain a mix between owned and franchised units as often addressed in the franchising literature (Alon et al., 2017; Madanoglu & Castrogiovanni, 2018).

In the context of a systemic crisis, such as that which occurred in 2020, Kuckertz et al. (2020) suggest greater ease of overcoming on the part of startups, compared to other agents, due to their high degree of dynamism and resilience (Castro & Zermeño, 2020). It is open to discussion, however, whether the decision to the franchise would conflict with this aspect. In general, the interviewees argued in favor of not reducing these characteristics inherent to this business model, the main one being the pivoting capabilities (Hampel et al., 2020; Kirtley & O'Mahony, 2020). More than that, in the case of Startup 1 and Startup 2, operating through franchised units helped in the process of facing the crisis.

In general, the main advantages observed in the franchising process of startups are linked to the factors that determined the decision to franchise. However, in the case of disadvantages, aspects were observed that are not necessarily addressed by the theories. In the case of Startup 1, the main disadvantage relates to the costs of logistics involved in expanding through franchised units. As for Startup 2, the issue of profile alignment between franchisor and franchisees—an aspect enhanced by the highly dynamic profile of a startup—was highlighted. Finally, in the case of micro franchises, the operating model involves, in the view of the participants, the impossibility of establishing and enforcing quantitative goals and metrics, as well as difficulties linked to the standardization of operations.

Framework proposal

Based on the foregoing, a tentative framework was developed, composed of a set of testable propositions and a diagram about the startup franchising process. Building such a framework, as argued by Eisenhardt (1989), is the main objective of research of this nature.

As to understanding the factors determining the decision to franchise, the central point of this research, we were able to verify the proximity of aspects predicted by the traditional franchising theories. However, aspects specific to the reality of a startup were also raised. Thus, the first two propositions were defined:

> Proposition 1: The decision to franchise startups is supported by aspects related to both the resource scarcity theory and the agency theory.
>
> *Proposition 1a. For startups that operate through the conventional franchise model, aspects related to the Mobilization of Financial Resources tend to be decisive for the franchising decision*
>
> *Proposition 1b. For startups that operate through micro franchises, aspects related to Mobilization of Human Resources tend to be decisive for franchising decision*
>
> Proposition 2: Aspects such as organization and business appreciation, as well as tangibility of the idea, are relevant to the franchising decision specifically in the case of startups.

Hence, for both cases, conventional and micro franchising models, strategic approaches to resource constraints can be taken as critical elements for startups to scale up their business operations, following prior literature (Oxenfeldt & Kelley, 1969; Diaz-Bernardo, 2012). Of course, as identified in our analytical exposition, this is aligned with specific business models.

In turn, pivoting capabilities and the speed of change are inherent attributes and of fundamental importance for startups, considering their need to validate not only products but also entire value propositions (Hampel et al., 2020; Kirtley & O'Mahony, 2020). These characteristics could conflict with standardization, an aspect inherent to a franchise (Rubin, 1978).

However, this aspect has not been verified in our empirical analysis. Thus, we propose:

> Proposition 3: The startup franchising process does not cause the loss of attributes inherent to this business model, such as pivoting capabilities.

This is an element of utmost importance within the agency theory debate since strategic pivoting might cause conflicts between principals and agents due to substantial shifts in the direction of the business. Nonetheless, these adaptations also represent the search for business model refinements that are key for a business to remain competitive and achieve sustained growth.

Also, the decision to franchise is configured as a strategic decision by a company (Michael, 1996). In this sense, both the advantages and disadvantages of such a decision are strongly linked to the franchise model adopted. Therefore, the following proposition was built:

> Proposition 4: The advantages and disadvantages of the decision for a startup to franchise are linked to the franchise model adopted.

> *Proposition 4a. For startups operating through the conventional franchise model, the main advantage lies in the use of third-party capital, while the main disadvantages are related to the selection of franchisees and logistics.*

> *Proposition 4b. For startups operating through micro franchises, the lack of employment relationship is the main advantage, while the main disadvantages are related to the difficulty in standardizing operations and the impossibility of charging targets.*

Converging with the presented proposals, Figure 5 portrays the startup franchising process. The diagram development process has been aligned with the inductive approach proposed by Eisenhardt (1989). The aspects

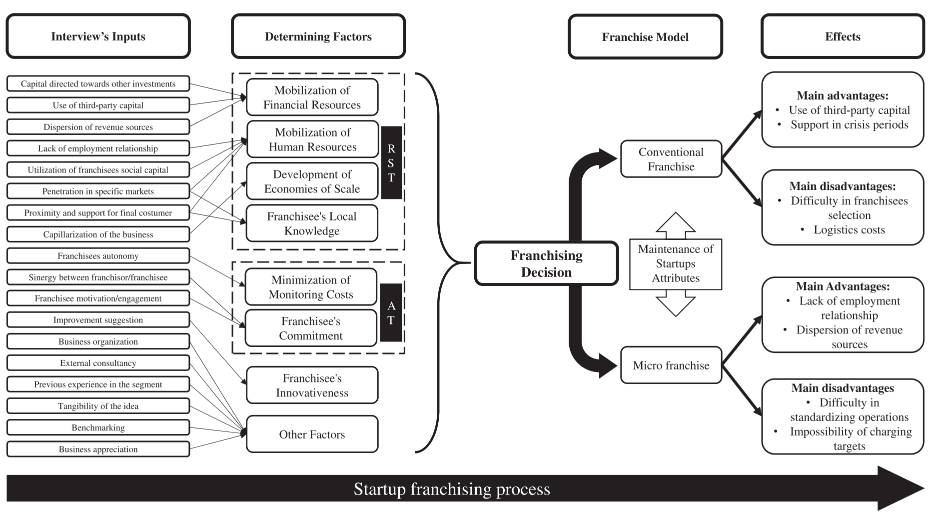

Figure 5. Diagram of startup franchising process.

obtained through the interviews (observation) were aligned with the determining factors of the franchising decision, verified from traditional theories, namely resource scarcity theory (Caves & Murphy, 1976; Oxenfeldt & Kelley, 1969); and agency theory (Brickley & Dark, 1987; Lafontaine, 1992), complemented by specific aspects of this type of business.

The preponderance of each of the factors that contribute to the decision to franchise is related to the franchise model adopted. However, regardless of the chosen model, the maintenance of attributes inherent to a startup figure is a critical aspect of this process. Finally, the main advantages and disadvantages are also in line with the franchise model chosen.

Concluding remarks

This article focuses on the franchising process of startups, seeking to explain which factors are decisive for choosing this model in the light of traditional franchising theories. Based on the study of four Brazilian startups that operate through franchisees, a dialogue was slated with the resource scarcity theory and agency theory. According to the former, the franchise decision occurs motivated by the mobilization of resources, development of economies of scale, and by the franchisee's local knowledge (Caves & Murphy, 1976; Oxenfeldt & Kelley, 1969). In turn, the arguments presented in the latter refer to the mitigation of agency costs and the franchisee's commitment (Brickley & Dark, 1987; Lafontaine, 1992).

The possibility of startups operating through franchisees through different approaches was evident, as both cases of conventional and micro franchises were observed. Accordingly, the model adopted is related to the determinants of the franchising decision. Startups that operate through the conventional model tend to present a franchising decision linked to the Mobilization of Financial Resources, while those that adopt the micro franchise model, tend to have in the Mobilization of Human Resources their determining factor. In the first case, this occurs mainly due to the need for high investments to open own units, as well as to obtain resources from the franchise fee. In turn, in the micro franchisees, the operating model developed makes the figure of the franchisee function as a substitute for a sales representative—without establishing an employment relationship between the parties involved.

In addition to the factors presented by the theories and corroborated to a greater or lesser extent in the cases analyzed, we encountered aspects specific to the franchising process of startups. These are mainly related to the organization, tangibility of the idea, and business valuation—challenges that are common to startups and that are potentially solved by adopting this model.

The advantages and disadvantages of the decision to the franchise are also linked to the model adopted. The advantages are directly related to the determining factors already presented. In turn, regarding the disadvantages, the issue of logistics and the difficulty in selecting franchisees emerge in the case of conventional franchises, while the impossibility of setting clear goals and metrics, as well as the difficulty in standardizing operations, emerge in the case of micro franchises.

The first difference in relation to the franchising process of startups and traditional businesses refers to the brief maturation period of the former before operations commence with franchisees, differing from those observed in traditional businesses. A second aspect is related to the non-pursuit of a contractual mix in the case of startups, as argued by the traditional franchising literature. Finally, the maintenance of pivoting capabilities and speed of change in the case of franchised startups becomes evident, contrasting with the recurring rigidity observed in traditional franchises.

The methodological choice for an inductive approach was justified by the small number of Brazilian startups operating with franchised units. However, it is expected that in the coming years this market will grow, so the application of the propositions presented in this research through qualitative approaches is the first suggestion for future studies. Furthermore, it is suggested to conduct studies in different national contexts and with a greater number of startups. Another interesting research opportunity is to conduct works that approach the franchisor's perspective within the scope of the process presented here from a longitudinal view, as well as the perspective of the franchisees in question, which will aid in our understanding of the differences between the franchising operation in startups and traditional businesses.

Through the adopted methodology, involving a low and heterogeneous sample, the impossibility of generalizing the results can be considered the main limitation of this research. However, this exploratory assessment has brought contributions to the field of franchising by reviewing an important theoretical discussion using an object of indisputable contemporary importance, the startup. It also contributes to the theme of startups by presenting a process that can be considered an important opportunity for startups looking to expand their business or obtain sources of financing. In this sense, the main practical implication of this research lies in the presentation of successful cases that can be analyzed by other entrepreneurs who experience the same issues and difficulties that led the analyzed startups to choose franchising and evidence-based on traditional business dynamics. Establishing a more systematic look into this conceptual intersection represents a promising research agenda.

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