



## PARTNER SELECTION PROCESS IN FRANCHISING

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**Abstract.** Franchising has developed into a major expansion strategy for different types of businesses, covering many sectors, mostly services. A franchising network builds on strong partners and a structured headquarters planning. The major problem discussed in this paper is finding the right business partners. This task has been a challenge for many businesses in the past and present, and especially for companies in the franchisor sector. Adequate selection allows for smooth and mutually benefitting relations, which usually turn into profitable and lasting alliances. Contrary to the right personnel decision, wrong decisions often arise from less strategic processes, and quick and unwisely taken decisions by the franchisor, due to lack of understanding of the problems to be solved or a lack of standardization in place. The aim of this research is to support pre-decision-making and to provide a summary of researched ideas on better future outcomes, when selecting a prospect. This analysis plays an important role in the quest for improving selection processes, company's self-assessments, and amendments for existing selection processes. The method used in this paper is content analysis by comparing a collection of articles, describing international franchise processes. Different industries and distinct companies reveal different criteria and strategies. The time frame of nine studies compared in this article starts in the late 1980s and ends in 2011 and covers the North American and European continent. As result, the author concludes from the analysis that depending on the businesses studied, not only country differences but also a company's strategy, and business sectors play a vital role.

**Key words:** *franchising, selection process, partner search*

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### Introduction

Successful franchising networks can be established when the franchisor recruits adequate franchisees, who provide the necessary prerequisites that fit the respective system -as in real life, partners need to match for a mutually benefitting operation. Mismatches create various problems for all parties involved and consume financial and temporary scarce resources. The key idea of recruiting an adequate partner is outlined and examined from different perspectives as stated in the literature. This contribution finds answers to the following research question: What major topics are included in a successful franchisee selection? The aim of this research is to support pre-decision-making and to provide a summary of researched ideas on better future outcomes, when selecting a prospect. The research method is a content analysis with a comparison of a selection of articles written over decades on the problematic topic of the

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successful franchising. The findings are summed up in a critical overview of the presented research covering nearly three decades. Direct comparisons of articles are rarely found, as research in this particular area of franchising is scarce. Therefore, compelling this paper is a relevant addition to existing literature and an informative work for future research experts. The compared articles are taken from academic online databases and include publications in two languages, German and English. Limitations of the analysis are the timely marked periods from which the selected articles were chosen. An additional limitation is the theoretical examination of the presented sources composed in a literature review. To increase the overview of the researched topic a larger number of publications from an extended time frame should be taken into consideration.

The ancient French vocabulary introduces the term franchise, as it is known today: “franche, meaning free or exempt” (Lafontaine, Durlauf and Blumer, 2008). It used to be a privilege given out to a party for special trading rights by a sovereign institution of the region or country. The exclusive right was exchanged for a regular or initial fee, called royalty. Although it might not be obvious, one of the largest and oldest institutions for allowing franchise rights is the government, which generally owns monopoly rights or at least major shares of the communication structure or construction rights of a country. These monopoly rights are part of the safety strategy of a nation. “Franchising typically refers to contractual relationships between legally independent firms, where one firm pays the other for the right to operate under the latter’s brand, or sell its product in a given location and time period. Franchised firms account for a large portion of commerce in the United States and around the world” (Lafontaine, Durlauf and Blumer, 2008). This definition explains the interrelation and interdependence of two parties bound by a contract. The good or service agreed on can nowadays be from any business branch and be traded nationally or internationally. The idea of the system is to expand the business rapidly with the help of others who buy the business idea. Vertical coordination and a uniform appearance of the interdependent franchise partners combined within a relatively flexible and slim company construct are necessary basics for such a specialized network system (Ahlert and Ahlert, 2010). In order to grow the business, partners have to be found and partnerships need to be established. However “picking winners is not a simple task and the difficulties inherent in the situation tend to be compounded by a number of additional factors” (Stanworth, 1995). Brookes and Altinay (2011) call the right partner selection “paramount” which can lead to failure if not executed wisely and divergence of goals partners have should have defined together during the selection process. The suiting combination of personal and business characteristics of a franchisee make up the success or failure of the franchisee’s undertaking (Ramírez-Hurtado, Guerrero-Casas and Rondán-Cataluña, 2011). These commonly seen factors by rapidly growing distribution system selection processes are the ones to be compared and analysed in this paper.

Franchising has ancient roots and has survived centuries of ever changing business environments. It has been turning into a vital part of our economies, spreading all over the world. The following data shows the emerging importance of this type of network. In 2010 in the US, franchising activities made up over 11% of all nonfarm work (Blair and Haynes, 2009). Nearly 765,700 franchisors and franchisees created over 7.6 million jobs which managed an output of 706 billion dollars (Norton, 1988). In Germany around 463.000 people working for a franchisor or franchisee created a turnover of about 55 billion Euro in 2010 (Harrison and Haller, 2011) which rose from 22 billion Euro in the year 2000. While the service sector has the highest share of franchised businesses with 46%, second place is retail, third food and beverage and fourth craftsmen with 32%, 15% and 7% respectively. With a tendency of multi-unit ownerships it can be estimated that 20% of all franchisees own 50% of all franchises (Blair and Haynes, 2009). These figures give an insight of the importance of the business form and its potential in the future. To benefit from this trend, adequate tools have to be explored.

Based on the above-mentioned criteria, research in the franchising field is important and needs further attention. Acquiring new franchisees is a regular challenge and can impact the reputation of the systems. It is further an influential factor of the participating parties of the system (Bröker, 2004). The attention



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paid to the franchisee selection process in order to expand these systems in a healthy and efficient way, is the topic of this paper and a frequently asked question in every day business life.

### Research Results and Discussion

The selection process when expanding a franchisor's network is vital and decisive for the future. The process is dynamic and can depend on a company's age, size and business sector. Therefore, the life cycle of a franchisor influences also the emphasis on different characteristics in franchisees. The combination of wanted characteristics of a potential franchisee reflects the type of strategy a company uses (Rahatulaah and Raeside, 2009). Based on a franchisor's age the selection criteria for franchisees differ. Nascent firms emphasize selecting a culturally compatible partner with financial ability to pay all necessary fees, flexibility to work long hours, technical capabilities, and managerial abilities. Systems of six to eight years' existence prefer technical competence and references of past work experience. Compared to that, older franchise network systems look for financial and managerial abilities in their future partners to secure gains and add to the company's further years of operations (Rahatulaah and Raeside, 2009). Based on a franchisor's size the selection criteria slightly change. Smaller franchisors look for franchisees with managerial ability, trustworthiness, and work experience. They emphasize the availability of franchisee's financial resources and flexibility to work long hours due to scarcity of resources. In addition they seek another factor: cultural compatibility. In contrast to small firms, very small firms seek partners foremost with experience to increase their growth rate and perceived experience of the network. Medium size franchisors prefer managerial and entrepreneurial abilities of their potential new network entries. They also stress flexibility in working hours. For large franchise systems selecting new franchisees includes searching technically competent parties which are culturally compatible and include ethnic minorities in their search (Rahatulaah and Raeside, 2009). These findings show how much requirements vary, depending on the size of a firm. Based on a franchisor's business sector researchers found out that retail, specialized services, and food services look for franchise partners with cultural compatibility, technical competence, and financial ability and flexibility, whereas automotive, retail education, and property related services prefer franchisees with managerial ability, trustworthiness, and references. The majority of specialized services seek work experience in their future partners (Rahatulaah and Raeside, 2009). Overall this discovery shows that franchisees with managerial ability appear trustworthy. They are more likely to be included in the franchise network, as they are in the position to show records of past achievements (Rahatulaah and Raeside, 2009). These results demonstrate clearly a change of profile during a firm's life cycle when selecting candidates. Businesses need to realize and adapt the search process adequately. Although the selection criteria are similar, the importance given is different. On a regular basis every company should assess its current status as far as age, size, and business branch is concerned and bring it in line with the strategy pursued in order to search for the most suitable cooperating party. One tool for assessing the application of a candidate is part of the following paragraph.

Approaching the selection process from a different angle, researchers assemble questionnaires to check on the conformity of candidates. Looking for specific traits is one part of the processes, but also the recognition of what profile is really needed for a specific franchise is highly important. John Stanworth (1995) from the International Franchise Research Centre in Westminster, England developed a diagnostic questionnaire to support the franchisee selection process and to help franchisors to assess the needed resources in a business partner. In his research he mentions challenges franchisors face, for example resource scarcity of small networks. This situation obliges key staff to manage several functions at the same time, some of which they are no experts in. Another example is relying on gut feeling when selecting new franchises. This strategy is rarely admitted by a franchisor, as it easily can result in wrong



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selection, followed by long-term problems. Stanworth also sees the spouse of a franchise partner as part of the. Husband and wife should work hand in hand to master upcoming work challenges. In Stanworth's view, knowing a candidate's attitude towards self-employment, self-discipline, limit of pressure level, ability to learn and obey, emotional behaviour, view of fairness, and bearing uncertainty is necessary to explore during the first phase of getting to know the applicant. Further areas he suggests to discover are a candidate's financial ability, level of support of the spouse, enterprise background, profit motivation, sales orientation, reception towards training, growth orientation, task delegation, long-term planning, and vision on future plans. Although the criteria are not ranked by importance as they depend on the eye of the beholder, the specific meaning of the terms show a concise approach of what are the most common criteria, franchisors should be aware of their prospective new partner, before welcoming him or her into the network. This in-depth and all-round profile testing helps the interviewer and the interviewee to understand mutual needs and prerequisites. The questionnaire triggers early intense conversations, which prevent possible misunderstandings in the time to come. After the parties enter a legally binding contract, these misunderstanding, which can be cleared at an early stage, may result in costly and hostile moments: "Franchisees with desirable characteristics can lower the agency costs to the franchisor in the form of less safeguarding and monitoring cost [...] appropriate selection criteria can improve the efficiency of the contractual relationship for the franchisor" (Jambulingam and Nevin, 1999). Overall Stanworth's diagnostic survey finds out about an applicant's entrepreneurial qualifications and those of an employed director. Being a franchisee means working by yourself but within the support of a network. Knowing the orientation of a prospect helps majorly in the selection process.

Based on a guiding study of two US specialists in 1999 (Jambulingam and Nevin), three German researchers Ahlert, Brock, and Evanschitzky (2006) replicated the US research for the country of Germany and managed to find differences in evaluating key franchisee selection criteria. The original study examines a franchisee's attitude towards business, financial capabilities, experience and management skills, demographics, franchise relationship, and business outcome measures. In the cross country comparison the studies found out that especially the attitude towards business is highly valuable indicator in the US study. In the broad area of cooperation and opportunism, which resembled the dependent variables, the comparisons also show a slight difference between the American study and the German study, as the US population seemed to have a higher dependency. Cooperation appears more positively related to attitude toward business and traditional factors, such as age, gender, education, and experience in the German study, than in the US study. The findings reflect that franchisees feel and act differently; depending on what national background they bear. Soft skills were found to be a highly necessary qualification for being a successful franchisee in Germany. This comparison of studies shows evidence that a franchisor may face differences, when recruiting in other parts of the world. Whatever criteria are important to the franchisee, the franchisor should be aware and react accordingly to find the best solution for both.

In a summary of preferred franchisee characteristics in the Spanish service industry the study of Ramírez-Hurtado et al.'s (Ramírez-Hurtado, Guerrero-Casas and Rondán-Cataluña, 2011) displays several criteria to determine a franchise partner. Entrepreneurial capacity, professional experience, motivation, financial capacity, personality, extroversion, communication, capacity, and desire for success are among them. Through a survey of experts in the Spanish service industry, the researchers found the following favourable attributes: managerial capability, capacity for human relations, entrepreneurship, desire for success, willingness to work hard, previous experience operating a related business, loyalty to franchisor, financial level, and perseverance. Evaluating the attributes in a survey to 313 franchisors resulted in a ranking of the most important attributes. Loyalty to the franchisor was the highest ranked characteristic. This attribute is highly linked with commitment, trust, cooperation, and communication. Secondly ranked is managerial capacity, which refers to the knowledge and command of management. Both characteristics, knowledge and command of management, are especially valued in the service industry. Thirdly ranked is willingness to work hard (Ramírez-Hurtado, Guerrero-Casas and Rondán-



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Cataluña, 2011). Set in context with Jambulingam and Nevin (1999), who found that attitude towards business is the most important factor in their study, one can see that a franchisee's stance is decisive for the outcome of his or her undertaking. Both studies put this criterion in their top three ranking.

The author compared Ramirez-Hurtado et. al with Knight (1986) who made a test on Canadian franchise networks. Both ranked willingness to work hard highly. In addition Knight demonstrated that overall franchisor and franchisees see the advantages of franchising as business-to-business system advantageous for franchisor and franchisee alike. A small difference can be noted in the natural sceptics of franchisees towards investing their capital. Considering that the service industry generally operates in highly flexible personal environment and often in direct contact with the customer, the willingness to fulfil and exceed customer's expectations requires a lasting and strong will to work hard. This shows that the will to succeed and to work hard overcomes apparent knowledge deficits. In Ramirez-Hurtado et al.'s study previous experience in related business is less important.

In order to find a franchise match, at least two parties have to agree on the conditions. It is not only the franchisor that is on the search for a fit, but also the franchisee. Partner selection criteria can therefore be viewed and analysed from two sides and may differ according to a firm's strategy and the corresponding position within its life cycle, as mentioned earlier. In a study about an American hotel franchisor selecting adequate European franchisees the research examined the interaction of franchisor and franchisee selection criteria. In this case study, personal chemistry, a subjective criterion which may be judged differently depending from person to person, is the most important criteria in the beginning of the decision-making process: "criteria of personal chemistry and communication facilitate the identification of compatibility between firms and their members" (Brookes and Altinay, 2011). Personal chemistry belongs to the group of partner-related criteria. Partner-related criteria on the one hand and task-related criteria on the other hand complement each other in a comprehensive selection strategy. The analysis of both requires extensive evaluation and distinguishes itself from other methods by its logical division and explicit definition. Task-related criteria are patents, technical knowledge, experience of management, access to marketing and distribution systems, and financial resources. Partner-related criteria are comprised of a character of a potential franchisee, culture and history of the future partner, trust of parties, and also corporate culture if the franchisee is an enterprise and not a private person. Franchisor and franchisee use partner and task-related criteria to evaluate the other party and to determine whether working together could be beneficial. The initial phase while getting to know each other includes both criteria. Later, during the negotiation process the importance of partner-related criteria increases. Active communication between future partner and franchisor is vital to explore the other party and to getting to know each other. This strategy triggers mutual learning and development of trust amongst the business partners (Brookes and Altinay, 2011). The screening and selection process is the key to prevent possible upcoming problems and is a base for establishing transparent and growing partnerships.

Altinay and Okumus (2010) mention three steps of decision-making in an international franchisee selection process. In addition three decision taking types are characterized: rational decision making, processual decision making, and political decision making. As in this case decisions for or against a certain franchisee are taken on several management levels within the corporation, distinct motifs by the decision makers determine one or the other type. The distinct types are connected to three steps: initial lead, selection, and approval. The first step, initial lead, explores the possibilities of a project, including meeting people personally to "see how sincere these people are" and starting a personal relationship with them. The author accounts this as a partner-related criteria, mentioned above by Brookes and Altinay. Altinay and Okumus (2010) refer to the elements of trust and character which should be explored in a potential partner before the next stage starts. Moreover, the culture of a certain target market is crucial. A possible culture gap between the expectations and thoughts of a franchisor and those of a franchisee who belongs to a different culture, could be immense. According to Altinay and Okumus (2010) the next stage of the three steps is called selection. Its main function is screening the project proposals. In context with Brookes and Altinay the author accounts this to task-related criteria.



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As far as the hotel industry is concerned, the financial screening takes place in this specific stage and that is when possible contribution to the shareholders are reviewed. Franchisor's brand standards are compared to the franchisee's brand strategy. In this selection stage Altinay and Okumus found out that communication is an important source of information for the relevant questions to answer, as the whole selection process involves negotiations between parties. The last step is the committee approval and it involves the presentation to a wider audience. They do not need to know details but have to grasp the big picture, especially the financial part of the project is of high value. Only after all parties agreed to go ahead with the new project, it gets approved. As a result of the study the researchers state that financial implications are crucial for decision making. Further it has to be mentioned that rivalry amongst decision makers can result in insufficient knowledge for one party and distort the view on the project (Brookes and Altinay, 2011). However, communication is once again stressed and found to be extremely important for building an opinion which forms the base for further decision making.

Table 1

## Overview of examined sources

No.	Author	Examination	Findings
1	Rahatullah and Raeside, 2009	From a franchisor perspective, what influences the selection process?	Selection process depends on firm's size, age and business type and differ according to firm's strategy
2	Stanworth, 1995	Do franchisees have more qualities of an entrepreneur or an employed manager?	Franchisees have qualities of both categories.
3	Jambulingam and Nevin, 1999	Evaluation of key franchisee selection criteria in US market.	'Attitude towards business' is a highly valuable indicator.
4	Ahlert, Brock, and Evanschitzky, 2006	Evaluation of key franchisee selection criteria in German market.	'Soft skills' are a highly valuable indicator for outcome.
5	Ramírez-Hurtado et al., 2011	Preferred franchisee characteristics in the Spanish service industry.	Ranking: Loyalty to franchisor, managerial capability, willingness to work hard.
6	Knight, 1986	Comparing attitudes towards franchising from franchisor and franchisee perspective.	Close agreement on advantages of franchising, with franchisees being slightly more skeptical.
7	Brookes and Altinay, 2011	Interaction of franchisor and franchisee selection criteria.	Different selection criteria (task and partner related) apply during different stages of selection process.
8	Altinay and Okumus, 2010	Evaluate franchisee decision-making models (from franchisor standpoint) and the influence of organizational factors.	Communication and knowledge influence three models: rational decision-making, process decision-making, and political decision-making. All types show three steps of action: initial lead, selection, and approval.
9	Meek, Davis-Sramek, Baucus and Germain, 2011	Developing a theory of franchisor-franchisee relationship.	Continuance commitment is only dimension that keeps franchisees from leaving relationship.

Source: author's summary of studies based on the order mentioned in the text



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A good partnership is nurtured by effective communication. Communication is a vital part of any relationship. In the sense of franchising this means dialogue and interaction between partners to nurture and grow a mutually benefitting business career. Meek et al. (2011) found out that lack of communication increases the propensity to leave the partnership. Communication and commitment are two aspects that go hand in hand in a determined partnership. Three dimensions of commitment have been found: affective (emotions), normative (obligations), and continuance (recognition of cost when leaving network). Linking these commitments with social exchange theory, it implies that these dimensions explain the existence or non-existence of a franchise partnership (Meek, Davis-Sramek, Baucus and Germain, 2011). Commitment, as described in these dimensions, classifies whether the franchisee has a strong will to stay, the need to stay, or the obligation to stay. Affective commitment lowers absenteeism, increases the sense of belonging to the partnership, and therefore results in the desire to stay in the interactive partnership. In contrast to other researchers Meek et al. found out that the propensity to leave the franchise depends mostly on continuance commitment. Nevertheless, researchers agree to the point that communication on a frequent, rational, and reciprocal basis triggers emotions of belonging (Meek et al., 2011). These findings are simple to relate to since all our lives are paved with relationships, some more intensive than others, however personal experience in everyday life confirms these theories.

Table 1 gives a visual overview of the above-examined articles and their findings. The sources discuss main issues of franchising and demonstrate key aspects of franchising literature, which are studied on a continuous basis. Most research results test foremost the North American and European market.

## Conclusions, proposals, recommendations

The content analysis of the different studies outlined above give insight in the variety of factors that need to be taken into consideration, when starting to choose a potential future business partner. Although the studies were published in different years, the overall message is similar: A prospective partner should complement the franchisor's abilities and support its needs. Depending on many factors, the decision-making concept should be conducted in line with the size, age, and business sector the company operates, the overall and specific regional strategy of a firm, the requirements of the task, the personal environment the business operates in, and the form of communication prevailing.

1. Resulting from the findings of the examined articles the author points out that there is a common and strong need to clarify the characteristic of the party selected. This is clear in Brookes and Altinay (2011) and Rahatullah and Raeside (2009). That franchisor has to know in what position his or her company is and what franchisee profile exactly suits the strategy of the business. Only with a complete picture of the requirements for a specific business it is possible to assemble an ideal profile of a complementing franchisee. Interpersonal skills and individual prevailing characters of the selecting party add to the difficult construct of finding the perfect fit.

2. Concluding from the articles and the common arguments of Ramirez-Hurtado et. al (2011), Ahlert, Brock, and Evanschitzky (2006) and Jambulingam and Nevin, (1999) display the difficulty if the entire selection process and its development. It is possible to design a hypothetical model with ranked factors, which can be checked in certain stages of the decisions process, but in reality the ideal combinations are very rare to find. Consequently required criteria have to be compensated if they are not available in the desired quality or quantity. A lack of the searched ideal section qualifications should be realized by all parties and openly discussed at an early stage, while franchisor and potential franchisee get to know each other.

3. The distinction of the articles is not so much the year in which they were published and the level of knowledge on which they were built respectively, but rather the different approaches they used to tackle



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the common problem of franchisee selection. Hard facts as much as soft facts play a vital role and personal chemistry, as well as attitudes, or certain financial situations can trigger decisions either way.

4. Resulting from points one to three, the view of the entire decision-making participants might not be the same, as several individuals who could opine differently under certain circumstances. Based on the decision makers, personal experience, information, and knowledge of the specific topic, distinct opinions may result. As long as there is no standard level of judgment established beforehand, which then acts as common and homogeneous ground for all decision-makers decisions on agreeing on a party can vary.

Finally the overall contribution of this paper is to compare and analyze different sources in the franchisee decision-making process. For this reason it is important to mention the assessment and overall acknowledgement of the status quo in a firm. After that specific goals and the resulting needs for the organization have to be evaluated. Following this process, an individual profile of a prospective party fulfilling these needs should be created before starting the selection process. The more intense the preparations, the higher the quality of the outcome and the level of satisfaction for franchisors and franchisees, and the less the future cost, resulting from mismatch and dissatisfaction.

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