

# **A COMPARATIVE EMPIRICAL EXAMINATION OF INITIAL FRANCHISEE INVESTMENTS IN AN EMERGING AND A DEVELOPED MARKET**

## **Abstract**

Scholars and practitioners have acknowledged that the franchising sectors in the U.S. and other developed markets (e.g., Canada, Western Europe, Australia, Japan) have reached saturation levels, and that emerging markets are relatively untapped and present the greatest potential for long term franchising growth. In this paper, we undertake a comparative study of drivers of the initial franchisee investments (including the franchise fee and initial outlays) in franchising arrangements in a large emerging market (India) and in a developed market (U.S.). Specifically, we investigate the relationship between initial franchisee investments by Indian/U.S. franchisees in Indian/U.S. franchise systems and antecedents that are specific centered (unique to the franchise system) and structure centered (unique to a particular industry). We draw on different theoretical frameworks from the franchising, marketing and finance literatures to develop hypotheses for the above relationships, including some competing hypotheses. Using a data set compiled from multiple archival sources, we find that, for Indian franchisors, the size of a franchisor's franchisee network has an adverse impact on the initial franchisee investment while the duration of the franchise contract positively affects the initial franchisee investment. Moreover, these variables have a negative interactive effect on the initial franchisee investment. In contrast, for U.S. franchisors, all three effects are positive. The results for Indian franchisors depart from findings of empirical studies in developed markets and suggest that efficiency of a country's regulative system is important for coordinating contractually governed exchange relationships (such as those observed in franchising). We also assess and identify industry sector effects and discuss the implications of these findings. Our overall results suggest the need for caution in extrapolating results based on empirical marketing channels research in developed countries to emerging markets, and reinforce the need for further research on franchising and marketing channels in emerging markets.

**Keywords:** Franchising, Emerging Markets, India, Comparative Analysis, Empirical Analyses