THE INFLUENCE OF FRANCHISING ON THE DEVELOPMENT OF ENTREPRENEURSHIP – A PERSPECTIVE OF FRANCHISORS AND FRANCHISEES IN TURKEY

Milena Keskin
University of Lodz
Faculty of Economics and Sociology

Abstract: The growing popularity of franchising as one of the forms of business development by the so-called ‘budding’ seems to have a strong influence on entrepreneurial behaviors of the players in the franchising market. Particularly in Turkey, a country disturbed by turbulent political and economic changes, the company development in the franchising chain gives a sense of security. The aim of this article is to present the impact of franchising on the development of entrepreneurship among franchisors and franchisees in Turkey. The article is based on author’s own research carried out on the Turkish franchising market in 2016 and 2017 as well as on secondary data, using the qualitative method.

Keywords: development, entrepreneurship, franchising, Turkey

DOI: 10.17512/znpcz.2018.4.17

Introduction

In today’s highly competitive economy, franchising has become one of the most popular forms of running a business. Some entrepreneurs prefer developing a company in a franchising chain rather than beginning from zero. A ready business idea, well-known brand, know-how, marketing and operational help, as well as general support provided by a franchisor, are the main advantages of this form of a business model. The goal of this paper is to present the main characteristics of franchising as a way of expanding a company and its connection with entrepreneurship development in order to determine the ways of influence that franchising has on entrepreneurship’s development among Turkish franchisors and franchisees. The study is mainly based on empirical data collected during the research carried out on Turkish franchising market as well as on secondary data and literature review.

Entrepreneurship and company’s development

The concept of entrepreneurship has a long history in the economic and business world. The most popular definition of entrepreneurship comes from Schumpeter, who put high pressure on innovation as an internal drive of evolutionary change. Following his thought, entrepreneurs implement novelties by
setting and running a business financed by risk-friendly capitalists. Innovations, which should be understood as new goods or new methods of production, can create profit (Ebner 2006, p. 324-325). One broad agreement is that innovation is considered as the main element of economical growth. Thanks to innovative ideas, goods and services are more competitive (Skowron-Grabowska, Mesjasz-Lech 2017, p. 23), which allows companies to expand to more markets. According to Smith, the main component of the Wealth of Nations is the division of labor and the former depends mainly on the extensions of market and as a consequence on innovation process (Mendez, Galindo, Sastre 2014, p. 843). Leibenstein distinguishes two types of entrepreneurship (Leibenstein 1968, p. 72): on one hand routine entrepreneurship as a type of management, and on the other hand a Schumpeterian style of a ‘new type’ entrepreneurship. By routine entrepreneurship one can understand actions to coordinate and navigate an established market, concentrating on alternatives to a current use of production functions on well-defined markets. New type entrepreneurship, on the contrary, describes actions needed to create or continue a business where not all markets are established or not all parts of the production functions are clearly defined or known (Seroka-Stolka, Surowiec, Pietrasieński, Dunay 2017, p. 122). The role of an entrepreneur is to coordinate activities that are spread in different markets. According to Leibenstein, in both cases the entrepreneur is responsible for coordination of all markets. But in the second case not all markets may exist or operate well so his role is to cover the market insufficiencies. An entrepreneur is a person who can seize an opportunity, an out-of-the-box thinker who is unable to conform to traditional structures. Furthermore, entrepreneurs treat risk as an opportunity and take a chance to develop an idea to a business project.

**Franchising as an entrepreneurial way of running a business**

The word ‘franchise’ derives from the old French for ‘franche’ meaning free or favored. In the Middle Ages it meant a right or privilege granted by a sovereign power – a king, church powers or government. Franchisees were given the right for enterprises such as building roads, organizing markets, holding fairs or collecting taxes in exchange of a certain fee or share of products or profit – a so-called royalty (Blair, Lafontaine 2005, p. 3-4). This period is known as the first stage in franchising development. In Great Britain it existed in a form of so-called tied house contracts, by which a king or other authority gave long-term monopoly rights in some business fields in exchange for certain fees or services. The background of such contracts was in rationing of alcohol sales permissions. Breweries started buying out clubs that owned a sales permission and pushing them in the lease contract to sell only certain brands of alcohol. Alcohol producers also offered some restaurants and pubs modernization services in exchange for a commitment to sell only certain brands (Ziółkowska 2010, p. 13).

The second stage took place in the 19th Century mainly in United States of America. One example is American Railways, which gave the rights to construction of rails and train stations to unaffiliated enterprises, thus contributing
Milena Keskin

to a fast development of the railway system in the country. In the 20th Century the world-renown Coca-Cola company created a distribution chain of beverages, giving the bottling plants the license to purchase the concentrate of a drink. It also gave rights to use the brand name of the producer, uniform packaging and final product distribution (Ziółkowska 2010, p. 16). Other famous brands that developed their business through chains were: Rexall (drugstores), General Motors (automotive) and General Oils of Indiana (oil industry). In Europe, a pioneer in this business model was a Czech shoe producer Bata (Ziółkowska 2010, p. 17).

The real boom in franchising development took place in the second half of the 20th Century. Producers did not only give the license for distribution of their goods or services, but also for implementation of their whole business idea: trade mark, standardization of branch design, service level or financial settlement of accounts (Ziółkowska 2010, p. 17). Also, franchising became attractive to other industries, such as catering (including fast-food industry), real estate and electronics. The most famous company is McDonald’s, whose business idea was based on high standard of service level that should be offered in each unit. Other illustrative companies are Yves Rocher, Kentucky Fried Chicken, The Body Shop, Mövenpick (Dudzik 1996, p. 7).

Nowadays franchising is understood as a co-operation between two legally independent firms, whereby one firm (the franchisor) is being paid by the other firm for the right to distribute the franchisor’s goods (Blair, Lafontaine 2005, p. 3-4).

As for its definition, Mendelsohn, an absolute expert on franchising, describes this form of company’s development as ‘a method of marketing goods and services which has proved remarkably successful’ (Mendelsohn 1992, p. 7). According to the European Franchise Federation ‘franchising is a system of marketing goods and/or services and/or technology, which is based upon a close and ongoing collaboration between legally and financially separate and independent undertakings, the Franchisor and its individual Franchisees, whereby the Franchisor grants its individual Franchisee the right, and imposes the obligation, to conduct a business in accordance with the Franchisor’s concept’ (http://www.eff-franchise.com/…). Kolarski describes franchising as a method of running a business in distribution of goods and services, where an enterprise receives the rights to offer and sell certain goods using marketing forms of another enterprise, its brandname, trade mark, technical and organizational experience (Kolarski 1992, p. 6).

Franchising is a way of developing a company whereby a franchisor, as an owner of a business idea, is giving the right to run his business to other independent investors, or franchisees, in exchange for a fee. At the same time the franchisor is in control of its proper implementation. A franchisor is the owner of the trademark and a founder of an innovative and difficult to replicate idea. His role is to offer a set of goods, services or technology, provide trainings and workshops, marketing and operational support and in some cases train staff in order to ensure that a franchisee will encounter the same or better success. Generally, a franchisor is a well-known company with years of experience and a
proven business idea. On the other side of a co-operation chain there is a franchisee, an entrepreneur seeking a ready business idea and protection of a more experienced partner (Nitescu, Isac 2014, p. 179-180).

Some studies, however, consider franchisees and entrepreneurs as two different and not connected terms. An entrepreneur is described as a person ready to take risks in order to create something original and sustainable. Franchisees, on the contrary, take over a ready business idea and try to make it sustainable using the experience and know-how of a franchisor. Nevertheless, due to the fact that franchisees invest their own capital and take certain risk of running a business – as franchising does not give 100% success guarantee – they fall into frames of entrepreneur’s definition. In Kaufmann’s work two perspectives about why franchising can be considered entrepreneurial business models have been presented. Firstly, franchisees using their acquisition power finance the retail companies to expand. Secondly, with their knowledge of the local market and contacts they help the franchisor to adapt to the local conditions in a faster way (Kaufmann, Dant 1998, p. 12).

A franchising entrepreneur creates an exclusive business model and is responsible for efficient management of a complicated system of independent business owners (Kaufmann, Eroglu 1999, p. 65). According to Dada and Watson, diversified markets in which franchisees operate make them adapt to flexible conditions and use innovations in order to meet the market requirements. These actions bring competitive advantage. Both authors also claim that franchising has three main features of an entrepreneurial business format: go in for innovations, proactive performance and undertaking risks (Dada, Watson 2013, p. 795).

Universality of franchising allows it to be of a great use in generally all business sectors: production, trade and services. Nowadays, it still triumphs in industries such as gastronomy, real estate or services, but increased in popularity in others, such as the cosmetic industry, education, sports and recreation.

Franchising in Turkey

The Republic of Turkey is located in Asia (97% of the country’s territory) and in Europe (3%). The country boasts a population estimated at about 78 million. Its capital city, Ankara, is located in the central part of the country. Its most populous city, Istanbul (pop. ca. 15 million people) is located on the Bosphorus Strait, between Europe (Barcik, Dziwiński, Jakubiec 2017, p. 19) and Asia. Turkey can be characterized with a dynamic demography. Between 1950-2000 its population increased yearly by 2, 6%-3, 3% only to slow down in 2008 to 1, 3% per year. Still, compared to other countries, it is a high number (Turkish Statistical Institute: http://www.turkstat.gov.tr/…). About 70% of the population live in the cities (International Franchise Association https://www.franchise.org/…).

According to Organisation for Economic Co-Operation and Development (OECD) unemployment in Turkey in the last quarter of 2017 was at the level of 10, 1%, which places Turkey near the bottom of the OECD 35 member countries. In comparison, Polish unemployment rate was about 4, 6%, German 3, 6% and the
average for all OECD countries 5.5% (https://data.oecd.org/…). The main attributes of Turkish society is its young and dynamic populous (52, 4% of the population is in production age), rich inner market, strategical geographical location of the country, strong infrastructure and improving quality in the service sector. On the other hand, lack of transparency in business relations and minimal trust in state institutions has led to the fact that national and international investors have increasingly refrained from investing in Turkey in the last several years (Genckaya et al. 2016, p. 3).

Turkish economy is based on a modern industry (especially textile and clothing) and traditional agriculture. The Turkish franchising sector can be described as an example of a rising market, which is mainly supported by a relatively cheap workforce and a high population with an average age of roughly 30 years. Research indicates that it is a young society with an increasing purchasing power, which expects a presence of global brands on the local market and service on the highest level.

Although franchising in Turkey is rooted in the 1970s of 20th Century, especially trough a network of dealers in automotive, beauty industry and home appliances, the official term ‘franchising’ had been introduced to the business and economic terminology at the beginning of 80’s, when some of the most famous world-wide known brands entered the Turkish market using this type of a business model. Additionally, the Turkish market became more business friendly to foreign investors through a simplification of legal regulations and minimizing of bureaucratic barriers. Franchising spread rapidly and dominated the food industry, in particular the fast-food industry and coffee houses. This is connected with a national trend of eating out of home (Olcay 2007, p. 69-70). Similar to many other countries, the first franchising chain that operated in the Turkish market was McDonald’s, followed by Pizza Hut, Kentucky Fried Chicken (KFC) and Wendy’s. A real franchising evolution took place at the beginning of the 90’s, as a result of an increased number of shopping malls – as a main location of franchising units. The true dynamics of the Turkish franchising market can be proven by the numbers. In 2007 there were around 200 franchising chains, which grew by almost seven times by 2014. The exact number of franchising chains and franchising units in Turkey has been presented in Table 1.


<table>
<thead>
<tr>
<th>Year</th>
<th>Number of franchising chains</th>
<th>Change in % in comparison to previous period</th>
<th>Number of franchising units</th>
<th>Change in % in comparison to previous period with available data</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993</td>
<td>36</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1997</td>
<td>100</td>
<td>178%</td>
<td>2 000</td>
<td></td>
</tr>
<tr>
<td>1998</td>
<td>54</td>
<td>-46%</td>
<td>4 612</td>
<td>131%</td>
</tr>
<tr>
<td>1999</td>
<td>66</td>
<td>22%</td>
<td>5 580</td>
<td>21%</td>
</tr>
</tbody>
</table>
The influence of franchising on the Development of Entrepreneurship...

<table>
<thead>
<tr>
<th>Year</th>
<th>Franchisors</th>
<th>Growth</th>
<th>Franchisees</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>82</td>
<td>24%</td>
<td>6,150</td>
<td>10%</td>
</tr>
<tr>
<td>2007</td>
<td>200</td>
<td>144%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td>800</td>
<td>300%</td>
<td>44,000</td>
<td>615%</td>
</tr>
<tr>
<td>2010</td>
<td>1,200</td>
<td>50%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>1,471</td>
<td>23%</td>
<td>47,000</td>
<td>7%</td>
</tr>
<tr>
<td>2015</td>
<td>1,850</td>
<td>26%</td>
<td>47,000</td>
<td>0%</td>
</tr>
<tr>
<td>2016*</td>
<td>1,840</td>
<td>-1%</td>
<td>55,000</td>
<td>17%</td>
</tr>
</tbody>
</table>

* forecast

Source: Author’s elaboration based on (http://www.franchisetimes.com/…; http://www.haberdem.com/…; UFRAD 2016, p. 1)

A strong financial support is being offered through a governmental subsidy Turquality, sponsored by the Turkish Ministry of Economy. The law, which has been passed in 2011, allows Turkish entrepreneurs (including franchisors) to apply for a subsidy for their national and international expansion, partially covering fair attendance costs and foreign investments (http://www.turquality.com/). Additionally, small and medium enterprises are being supported by the government in fair and exhibition organizations, covering marketing costs or salaries (up to 50%) and can receive trainings organized by Turkish Chamber of Commerce (UFRAD 2016, p. 3).

The influence of franchising on entrepreneurship in Turkey

Data used in this article has been collected in a research to doctoral thesis, which has been carried out between 2015 and 2017. Questionnaires have been sent out between August 2016 and March 2017 to a group of a 2505 Turkish entrepreneurs: 113 franchisors and 2392 franchisees. A descriptive method has been used. In most cases (2479) the questionnaire has been delivered by e-mail, 26 questionnaires have been fulfilled through a personal contact. Research sample has been chosen intentionally by the author, based on her experience and data availability. In order to approach franchisors and get their contact details, the author used the members’ list of UFRAD (Turkish Franchising Association), but during the research it turned out that some of the members do not operate in a franchising chain anymore, never worked in any, failed in developing their business in a franchising chain, are not planning to do it or they are at the very beginning of the planning process of developing the company through a franchising chain. Clarifying this vagueness and time invested in reaching proper respondents delayed the research respectively. The main criteria of choosing the research sample were that the franchising chain should be operating for at least 3 years and should have at least 3 franchisees. This requisite was supposed to pick only strong companies, which have already gathered experience and managed to sell their ideas to new investors (franchisees).
Due to random data availability regarding the Turkish franchising market, lack of consistency in qualification of membership or execution of membership conditions in UFRAD association, general entrepreneurs’ reluctance to reveal any information were a certain limitation to this study. Additional difficulties were caused by political and economical events that took place between 2015 and 2017: winning the presidential election of a conservative AKP party, influx of Syrian population, terrorist attacks, political crisis with Russia and unsuccessful coup. It all had a strong effect not only on the economical situation in the country but also on the morale of entrepreneurs and potential investors. While carrying out the research, the author came across some opinions that investors, instead of allocating their financial capital on franchising market, are afraid of investing in the country. Moreover, foreign investors, especially from Germany and France, gave up investing in Turkey because of the unstable political situation which reflects the economical uncertainty in this country. Also, Turkish entrepreneurs – potential franchisors, are often afraid of revealing the know-how and business secrets as well as uneasy to open themselves for new business ideas. It is mainly connected with some cultural and mental conditions of the society.

Pessimistic atmosphere, fear and uncertainty were noticeable among the respondents, who in many cases did not hide their dislike to the author. Some of them ignored multiple reminders of returning the questionnaire; others replied in a vulgar way or offended the author. Some of the franchisees meant that due to data confidentiality they are not allowed to participate in the research without the permission of their franchisor, however, after receiving the latter by the author (and author’s assurance of confidentiality of received information), the franchisees kept on ignoring the reminders. On the other hand, although some of the franchisors did provide full information, they refused to reveal contact details to their franchisees or even forbid to contact their franchisees, should the author manage to get the contact details from another source. It gave the impression as if they were afraid that their franchisees may reveal some information that might have a negative effect on company’s image. A significant impediment on finding the contact details of franchisees was a nonexistent e-mail address of each single franchisee. It turned out that in many – also well-known franchising chains consisting of numerous units – all units use one common e-mail address, assigned also to the franchisor. The reason may be that a franchisor wants to control the electronic mail of the whole chain and does not give his franchisees the right and freedom of contact with customers.

From 2505 people who received the questionnaire, the author received 135 replies (33 from franchisors and 102 from franchisees) which give the return rate of 29, 20% for franchisors and 4, 26% for franchisees. Due to a low feedback level the data evaluation has been done in a qualitative way. Sectors which have taken part in the research have been presented in Figure 1.
Questionnaires consisted of 16 questions for franchisors and 18 questions for franchisees. In both cases the aim of the first questions was to understand the nature of the business, its place on the market (number of units, years of activity, entrance fee level). The role of the further questions was to estimate the influence of franchising on a company’s development in Turkey, through recognizing the advantages and disadvantages of this form of co-operation, the influence of franchising on Turkish economy, on company’s performance in general and particularly on the interviewed company. The questionnaire mainly consists of open-ended questions, the rest were multiple choice questions. The construction of the questionnaire and types of questions has been consulted with a specialist from University of Lodz, basing on author’s experience after a trial research and peculiarity of the Turkish market.

One of the common questions, accurate to the scope of this article was ‘What is the influence of franchising on entrepreneurship (business) development in Turkey?’.

In their replies, franchisors showed a distinctively positive attitude towards the influence of franchising on entrepreneurial behavior. According to them, it increases the employment rate, gives investment opportunities, creates new brands and contributes to the improvement of work quality and standards or allows keeping them high. Most of the franchisors treat franchising as their second job opportunity, which means that they were in search of additional income possibilities. In this way the franchising market grows. Franchising does not only
stimulate the labor market but also decreases the unemployment rate. Additionally, in their opinion, franchisors actively support their franchisees by a know-how transfer, wisdom advice and years of experience. They take care of quality and standards and can demand that their franchisees decrease the rate of development in order to provide a ‘healthy and stable development of the company’. Nowadays, young entrepreneurs also have the financial capital to start their own business. But instead of setting up a new business and creating a brand from zero, they prefer the security that franchising gives. It is also a good option for those with little or no business experience and low financial capital. To sum up, franchising development in Turkey has a huge impact on entrepreneurship development in this country. Most Turkish entrepreneurs want to have their own business and to be their own bosses. Franchising gives a stable business idea with relatively low costs. In the end, being a franchisor or a franchisee gives a competitive advantage over other entrepreneurs not working in a chain.

Both parties, franchisors and franchisees, were asked to reveal their age. Due to the fact that franchisors have been mainly represented by general managers or other staff members, the age has not been taken into consideration in the further research. Franchisees, however, ranged between 24 and 61 years old and the average age was 41 years old. It indicates already that this business model is adequate for all age groups. Sectors which have responded to the research questions, including quantitative data, have been presented in Figure 2.

![Number of respondents (franchisees)](image)

**Figure 2. Number of respondents (franchisees) in each industry**

Source: Author’s elaboration
As it has been mentioned above, franchisees were asked about the influence of franchising on entrepreneurship development in Turkey. Similarly to franchisors, franchisees admitted that franchising has had a positive influence on entrepreneurial behaviors and entrepreneurship development in Turkey. First of all, it helps to set the first steps in business life and allows people with low financial capital to own a business. Franchising helps people who are afraid of taking the risk of starting a business under his/her own name. Also, even though many entrepreneurs have a business idea, they lack the finances to make such an investment, while at the same time other companies offer a business idea on low cost, thus more readily available. The possibility of using elaborated standards and franchisors’ experience allows minimizing the bankruptcy risk. In each sector business experience gives a competitive advantage and franchising allows achieving the same in a relatively shorter time. According to franchisees, Turkey needs more entrepreneurs who keep high standards and those are created by franchising. Turkish entrepreneurs try their luck in different industries and franchising is a business model that gives a chance to those with no experience in those industries. Additionally, franchising gives people hope, courage and sense of safety. Franchisees stated that in today’s highly competitive world, in order to succeed, it is safer to develop a company under the wings of a famous brand. In other words franchising is an effective way of company development, where an entrepreneur can run the business in a professional way, act faster and use their knowledge in a better way. Running a business in a franchising chain increases the number of investments, which has a positive influence on the economic development of Turkey. This way of co-operation was compared to a situation of beginning a football match with a head start. However, there were two distinct replies that stated although franchising may have a positive impact on economy, it kills the creativity in people, and secondly that franchising has nothing to do with entrepreneurship. It only shows the lack of basic knowledge on franchising.

As mentioned earlier, due to inconsistency in the member’s list of UFRAD, the respondents who took part in the were both successful and unsuccessful franchisors and franchisees; however, the latter were only single cases. All answers, though, have been included in the data evaluation.

It must be mentioned that official statistical data on franchising topic in Turkey is extremely limited. UFRAD, Turkish Franchising Association, collects only quantitative data on franchisors’ numbers, and only from those who are willing to participate in this procedure. As for franchisees’ numbers, they are being roughly collected from franchisors that are eager to reveal them. There is no data on franchising topic collected by Turkish Statistical Institute (TurkStat). As a consequence, any further research, including official study on franchising’s influence on unemployment or investment rate in Turkey has not been carried out yet.

Conclusions

Today’s globalised, highly competitive and challenging business world puts potential investors under extreme pressure. Entrepreneurs, who decide to run their own business, in order to succeed, prefer more often to run it in a franchising chain.
Franchising became one of the most popular business models in the last decades, known as a way of company’s development with a recipe for success. The same increasing trend can be observed in Turkey where most entrepreneurs prefer to run their own business and in most cases they opt for franchising. The research, which was carried out among Turkish franchisors and franchisees, showed that franchising has a strong influence on entrepreneurship’s development. On one hand it allows the franchisor, who already developed an innovative business idea, to spread it on low costs, and on the other hand it gives franchisees a chance to have their own business and contribute to the franchising’s further expansion.

References
WPŁYW FRANCHISINGU NA ROZWÓJ PRZEDSIĘBIORCZOŚCI – PERSPEKTYWA FRANCZYZODAWCÓW I FRANCZYZOBIORCÓW W TURCJI

Streszczenie: Rosnąca popularność franczyzy, jako jednej z form rozwoju działalności przez tzw. „pączkowanie”; wydaje się mieć silny wpływ na rozwój postaw przedsiębiorczych graczy na rynku franczyzy. Szczególnie w Turcji, kraju, gdzie mają miejsce turbulentne przemiany polityczne i ekonomiczne, rozwój firmy w sieci franczyzowej daje poczucie bezpieczeństwa. Celem artykułu jest zaprezentowanie wpływu franczyzy na rozwój przedsiębiorczości wśród franczyzobiorców i franczyzodawców w Turcji. Artykuł bazuje na badaniach własnych autora przeprowadzonych na tureckim rynku franczyzy w latach 2016 i 2017 oraz na danych wtórnych, z wykorzystaniem metody jakościowej.

Słowa kluczowe: rozwój, przedsiębiorczość, franchising, Turcja