

# ALTERATION IN THE DISTRIBUTION OF DECISION RIGHTS IN DIFFICULT TIMES: A FIELD RESEARCH ON FRANCHISING NETWORKS

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## ABSTRACT

*Shirking remains a significant issue within franchise networks, prompting franchisors to impose stringent contractual terms and centralize decision-making processes in an effort to mitigate it. However, challenging circumstances may necessitate increased collaboration, potentially prompting adjustments in the allocation of decision rights across the network. This study seeks to examine the impact of such circumstances on decision rights distribution within 21 franchising networks in Istanbul. Conducted within four districts of Istanbul, this research utilized survey applications to gather data, complemented by personal interviews with participants to ensure clarity and accuracy. Amidst the challenges posed by the Covid-19 pandemic, numerous adaptations were made to organizational structures and decision-making frameworks. Identifying the shifts in the decision rights distribution triggered by the pandemic within franchise networks is crucial. Developing suitable strategies to address potential future pandemics is imperative to safeguard both the national economy and the resilience of franchise networks. While this study reveals minimal changes in decision-making pertaining to financial processes and staff recruitment, significant shifts are observed in areas such as advertising, sales promotion, technological innovation, IT systems, advertising fees, training, franchise fees, franchise license fees, and distribution channels. Moderate changes are noted in supplier selection, product variety, product pricing, and store decoration and renovation.*

**Keywords:** *Franchising Governance, Distribution of Decision Rights, Crises Management, Covid 19 Pandemic*

## INTRODUCTION

Franchising is a business concept that helps companies to expand their businesses locally and internationally very quickly (Monroy & Alzola, 2005). The franchising sector in Turkey and in the world continues to grow day by day. Especially in the United States, franchising covers a very wide area. While the number of businesses joining the franchise system in the early 1990s was around 540,000 according to Statista, franchisees now employ more than 770,000 franchisees and more than 7.5 million people in the United States (Statista, 2022). The franchising sector in Turkey reached \$43 billion in 2019, included more than 10,000 entrepreneurs and created jobs for more than 250,000 people (Franchise Market Türkiye, 2020). More than 20,000 entrepreneurs joined this system in 2021. The number of chain companies in Turkey has reached 3,500, and the number of shops affiliated with chain companies has been 65,000. In addition, nearly 150 Turkish brands are currently operating abroad with more than 5,000 shops. As of 2021, the number of employees in Turkey increased to more than 300,000 people (Sakarya & Tuvay, 2021).

The pandemic had a major impact on the global economy. It also changed the habits, expectations and behaviors of consumers with the constraints imposed by the pandemic conditions. Franchising is one of the most affected sectors in this regard. The franchising industry, which is growing rapidly every year and becoming a large entrepreneurial ecosystem, has entered a new phase with the digital transformation that has accelerated in the pandemic. This transformation brought short- and long-term changes.

This paper attempts to answer the following research questions. (1) Have there been changes or transformations in the distribution of decision rights in the operational processes, i.e. in the management

and organizational processes? (2) If yes, how big were these changes? (3) Were these changes temporary or permanent?

This research isn't concerned with judging the effectiveness of changes made by franchising networks during the pandemic. Instead, this paper aims to unveil the administrative and organizational shifts within franchise networks in Turkey prompted by the Covid-19 pandemic. It delves into the pandemic's impact on franchising networks and scrutinizes alterations in decision-making rights. The exigencies of the pandemic necessitated the development of novel strategies; however, there remains a scarcity of studies on this pertinent topic. This study endeavors to bridge this gap by demonstrating to business networks whether the adaptations made during the pandemic could serve as effective measures for future extraordinary circumstances. By doing so, this paper aims to facilitate the formulation of new strategies within franchise networks.

The structure of the paper is as follows. Introduction explains why franchising is chosen as a research topic and why it is interesting for researchers. The second section, the literature review, explains the concept of franchising, the pandemic and its economic impact on franchising networks. It also examines the delegation of the distribution of decision-making rights in franchise networks. Moreover, in the literature review, data from articles and international reports on franchising are found to establish the background for our research questions. The third section explains about the methods used in data collection. The fourth section summarizes the data from the survey and our findings. Finally, section 5 concludes.

## LITERATURE REVIEW

### Emergence of the Covid 19 Pandemic

The Covid-19 pandemic that broke out in China in December 2019 was caused by the severe acute respiratory syndrome virus (SARS-Cov-2). It soon spread around the world. On 10 March 2022, the number of people infected with the virus worldwide reached 457 million and the number of deaths reached 6.04 million (Our World in Data, 2022).

Pandemics mainly cause sudden and widespread illness and death; moreover, they cause significant problems in social, political and economic areas. The Covid-19 pandemic was a global pandemic that occurred at a time when economic integration had reached a very advanced level, causing serious damage in both supply and demand functions (Fernandes, 2020).

### The Impact of the Coronavirus Pandemic on the Global and Turkish Economy

The Covid-19 pandemic has affected nearly all societal activities, from tourism to medical care, global supply chains, electronics and financial markets, and energy and food markets on a larger scale (Congressional Research Service, 2021). With the advent of the pandemic, the disruption of the production in Chinese economy has led to the cessation of global supply chain activities and a decline in the production in companies importing raw materials and intermediate products from China (McKibbin & Fernando, 2020).

Although it is impossible to say explicitly how much global economic damage the Covid-19 pandemic has caused, most economists agree that it has had and will have a serious negative impact. According to the forecasts, most major economies lost at least 2.9 percent of their gross domestic product (GDP) during 2020 (Szmigiera, 2022).

In the study conducted by McKibbin and Fernando (2020), Turkey will suffer a GDP loss of \$33 billion if the shock caused by the pandemic is small, if the severity of the shock is moderate, this loss will be \$75 billion and if the shock is severe, it will reach \$130 billion (McKibbin & Fernando, 2020).

### Impact of the Coronavirus pandemic on Employment and Working Life in the Global Economy and in Turkey

As the Covid-19 is a very serious and life-threatening global pandemic, the measures taken against this pandemic have also had a direct impact on the markets, supply and demand of goods and services, thus

on the working life on the globe in general and in Turkey in particular. With the spread of production disruptions in Asia, which is almost the production center of the world, and especially in China, the great slowdown in production systems has threatened the existence of enterprises.

According to data from the ILO's April 2020 study, around 2.7 billion workers worldwide were affected by the measures taken to close firms fully or partly. This made 81% of the global labor force (ILO, 2020). Most of the job losses and reductions in working hours due to the Covid-19 pandemic were experienced in the sectors which were most affected by the pandemic. According to ILO, 1.25 billion workers worldwide still work in the sectors most affected by the pandemic, suffering large production losses and high risk of job losses. Among these sectors, retail, tourism, hospitality and manufacturing are the most notable (ILO, 2020).

It is useful to briefly discuss the impact on the sectors (Table 1) that were affected by the Covid-19 pandemic in Turkey. Table 1 also shows the changes in employment levels in these sectors

Manufacturing is the sector most affected by the Covid-19 pandemic, employing 5, 1 million people. Here, both the supply restrictions due to health precautions and the sharp decline in demand had a huge impact (Türkiye İstatistik Kurumu, 2020). In Turkey, wholesale and retail trade is one of the sectors most affected by the pandemic and employs the second-highest number of workers with 3.8 million workers (TÜİK, 2020). The crisis affected also very deeply the hospitality industry. As expected, there is increase in the employment volume in the sectors like information and communication, health and social activities, transportation and storage.

**Table 1:** Unemployment and Employment Data in Turkey; Source: Own representation based on TÜİK, 2020

Employment by Sector and Unemployment Risk of Workers in Turkey				
Sectors	Effects of the pandemic on production (unemployment risk)	Employment volume before and after Covid-19 (in thousands)		
		2019	2020	Δ
Information and Communication	Low	233	224	-9
Education	Low	1.794	1.933	139
Health and social work activities	Low	1.445	1.472	27
Professional, scientific and technical activities	Medium	870	900	30
Culture, Arts, Entertainment, Recreation and Sport	Medium	168	140	-28
Transport and Storage	High	1.235	1.251	16
Production	High	5.114	5.195	81
Construction	High	1.533	1.392	-141
Wholesale and Retail Trade	High	3.837	3.800	-37
Accommodation and Food Services	High	1.682	1.553	-129

## Change in Organization and Working Life during the Coronavirus Pandemic

Change is an inevitable process and just like living things in nature, companies experience constant change and innovation under different conditions (Iverson, 1996). This is because companies are open systems and constantly interact with their environment. Companies that are in constant interaction with their environment must adapt to changes in their internal and external environment and make changes in order to survive in the long term. Organizational change is defined as a change in the structure, objectives, technology and way of doing business (Iverson, 1996).

Many companies affected by the pandemic have made some changes in their organizational structures and workflows to turn the disadvantages caused by the pandemic into an advantage. In particular, changes in customer demand and the tendency of customers to shop online have forced companies to

make changes to meet customer demands especially in inventory levels in certain product categories. In particular, companies in some countries have gone digital (Özgür, 2020).

In addition, The COVID-19 pandemic also spurred the adoption of flexible work arrangements, such as remote working and home offices. In order to prevent the risk of transmitting the virus during the pandemic process, the remote working and home office model has become a new business model (Akça & Küçüköğlu, 2020).

## Franchising Concept

Companies have to change their strategies and tactics in a competitive environment driven by rapidly globalizing markets whose locomotive is technological progress (Erdoğan & Hall, 2018). The franchising system's ability to open up and gain a foothold in foreign markets with strategic partnerships more easily than other methods has led the franchising system to attract attention and gain popularity (Esener, 1997). Philip Kotler refers to today's form of competition as hyper-competition. He states that the new paradigm of marketing in this competitive period consists of three basic elements. These are "consumer value", "basic competitiveness" and "collaborative networks" (Kotler, 2000). Nowadays, franchising offers quality products to the consumers at certain standards, especially in the retail and service sectors. It has low risk and low costs. It offers easier marketing opportunities to companies because of the brand.

Franchising is a form of commercial relationship that has spread worldwide through contracts, especially after the 1970s. According to the definition of the National Franchising Association (UFRAD), franchising is a long-term and continuous business relationship resulting from granting of a concession to the second party for the purpose of commercial activity of a product or service for a certain period of time under certain conditions and restrictions. Franchising is a contractual relationship between two independent parties (UFRAD, 2022). The franchise agreement is a legally binding document that gives both parties mutual rights and obligations. It is a normal and common practice to draft this contract (franchise agreement) in great detail and to include almost all points (IFA, 2022).

## Terms Associated with Franchising

A franchisor is the party granting the right to sell or operate under its successful brand, and may or may not own shops under the same system. They provide support like research and training (Franchise & More, 2020). A franchisor has the rights and privileges of the business relationship (Attorneys, 2021). A franchisee is an independent company using the franchisor's brand, service mark, know-how, operating system and other intellectual property rights for a specified period of time and at a specified price (Daszkowski, 2020). Franchisee pays fees for this right, including an entry fee and ongoing royalties based on sales. For instance, McDonald's charges a USD 30,000 entry fee (McDonald's, 2022) and a 4% franchise usage fee (Franchise Help, 2022).

Franchises come in a few different flavors. Business system franchising goes beyond just selling a brand; it provides a whole system of support, like marketing and training. Master franchising allows a franchisor to partner with someone to develop a specific region. Finally, product and brand franchising lets someone sell a proven product under an established brand name (Alon et al. 2020).

## History of Franchising in the World and in Turkey

The franchising system has been established in the United States since the 1880s. Its use in the Singer Sewing Machinery Company distribution system in 1863 is considered the first example by today's standards (The History Of Modern Franchising, 2021). Franchising boomed in the 1950s and 1960s with the expansion of branded merchandise and service chains. McDonald's, one of the largest franchises, opened 1,000 stores in just 10 years (Pipes 2017). Following these developments, the IFA "International Franchise Association," the first franchise industry association, was founded in 1960 (The History of Modern Franchising, 2021). In the United States, franchising covers a very wide area. According to Statista, the number of companies participating in the franchise system in the early 1990s was about 540,000, while today there are more than 770,000. 7.5 million people are employed in the franchise system in the United States (Statista, 2022). Franchising in Europe is a dynamic market. According to a survey conducted in 2009 by the European Franchise Federation, which was responded by 450 million consumers in 27 countries, nearly 10,000 franchises operate in 20 countries (The 2009 Report, 2009).

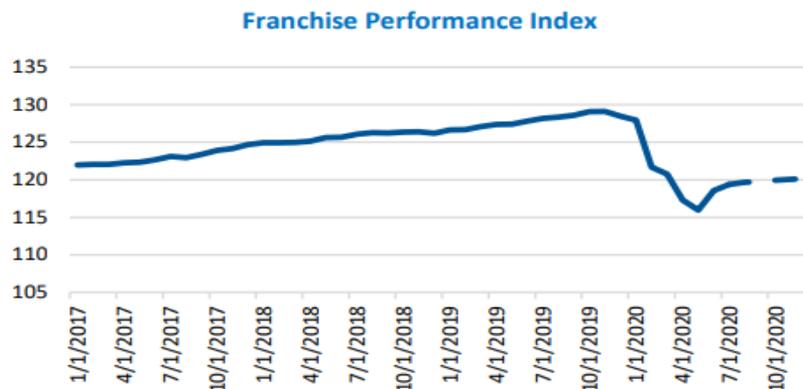
With the economic changes after the decisions of January 24, 1980, such as trade liberalization and opening to the outside world, Turkey has become attractive to foreign investors (Arslan, 2006). Franchising system found its first application in Turkey in 1985 with the American company McDonalds which entered the Turkish market. Wendy's, Kentucky Fried Chicken and Pizza Hut, which came to Turkey in the following years, became the first representatives of the franchising system in the fast-food sector (Franchise Turkey, 2022). The franchising sector in Turkey reached \$43 billion in 2019, included more than 10,000 entrepreneurs and created jobs for more than 250,000 people (Franchise Market Türkiye, 2020). More than 20,000 entrepreneurs joined this system in 2021. As of 2021, the number of employees in Turkey reached more than 300,000 people (Sakarya & Tuvay, 2021).

## Franchising Networks in the Pandemic

Franchise brands have been negatively impacted, particularly in retail and customer-facing segments, due to store closures, social distancing, and the overall slowdown in the economy. The contribution of franchise networks in the United States to the U.S. economy in 2019 was \$787.5 billion, with 8.43 million people working in franchise networks in the United States (Statista, 2022).

According to FRANdata's six-month analysis of the franchising market's response to COVID-19, the Franchise Performance Index (FPI) plummeted in the US when the pandemic first hit, reflecting the impact of stay-at-home orders. While the FPI rebounded somewhat after businesses reopened in July, it remained below pre-pandemic levels, highlighting the lingering effects of the crisis.

**Table 2:** The Franchise Performance Index (FPI); Source: FRANdata,2020



It was estimated that 32,700 franchises have closed by the end of August 2020. According to the estimates, 21,834 of these jobs were temporarily closed and re-opened, and 10,875 were permanently closed. The estimated loss of franchise jobs due to Covid-19 exceeds 1.4 million (FRANdata, 2020). Before the pandemic, franchisors in Brazil viewed technologies like omnichannel sales, online ordering, and mobile apps as optional extras. However, these very technologies became lifelines during the pandemic, as their use surged (Bretas & Alon, 2020).

Rocha et al. (2022) claim that franchisees need to reevaluat their interactions with various stakeholders, including customers, employees, and suppliers In response to the challenges. Additionally, they should develop alternative methods of reaching customers, such as online ordering, websites, and socialmedia.

Pandemic is a process that has a very negative impact, but the extent of it is not fully known. A scripted response isn't available, but a swift and effective reaction is crucial. (Koning, 2021). Both franchisors and franchisees play vital roles in navigating the network through a pandemic with minimal disruption. Franchisees, naturally, prioritize the day-to-day operations of their individual stores, implementing guidance and support from the franchisor. The franchisor, on the other hand, takes the lead in safeguarding brand reputation and ensuring the network's overall continuity.(Wijmans & Berg, 2021). One effective way used by the networks to cope with pandemic is increased collaboration between franchisor and franchisee through the IT channels (Nuroglu 2022). More collaboration requires adjustment in the distribution of decision rights to increase agility in difficult circumstances.

## Decision-Making Rights in Franchising

### Franchise Contract

The franchise agreement is a legal document that regulates the obligations between the franchisor and the franchisee. It is a legally binding agreement made between two parties. It explains in detail what the franchisor expects from the franchisee and all the obligations. There is no standardized form of franchise agreement, as the terms and functioning of different franchises vary widely depending on the type of business. However, every franchise agreement contains important basic provisions (Pipes, 2018). The franchise agreement is a comprehensive document outlining the rights and responsibilities of both franchisors and franchisees. It clearly defines the geographic area a franchisee can operate in, details the required operational standards, and specifies the duration of the agreement. Financial aspects are also addressed, including the initial franchise fee that grants access to the brand and operating system, as well as ongoing royalties typically based on a percentage of sales. The agreement also specifies how the franchisee can utilize the franchisor's intellectual property (trademarks, patents, logos) and clarifies how advertising and marketing expenses will be shared.

### Distribution of Decision-Making and Property Rights in Franchising

Franchising governance is studied under two headings. These are distribution of decision rights and distribution of property rights (Windsperger & Yurdakul, 2007). Since the franchising network brings together two entrepreneurs, management issues in franchising networks are more sensitive than in many other business models. The franchisor wants to control processes to protect its brand. Since the franchisee is also an entrepreneur, he/she doesn't always like to follow the franchisor's instructions. Instead, they want to feel ownership of their business and satisfy their entrepreneurial spirit (Cochet, Dormann, & Ehrmann, 2007, Nuroglu and Tatoglu 2021). The franchise agreement governs many details about management and responsibilities.

Franchising typically involves a clear division between strategic and operational decisions. The franchisor, with its broader network perspective, holds primary responsibility for strategic decisions that impact the entire franchise system. These might include decisions about pricing, product development, national advertising campaigns, and overall brand image. Franchisees, on the other hand, have more autonomy in day-to-day operations, making tactical choices within the framework set by the franchisor. This might involve local marketing adaptations, staffing decisions for their specific location, and supplier selection for their store.

Franchising involves a balance between intellectual property rights and investment incentives. The franchisor's ownership of intangible assets, like trademarks and know-how, is protected by intellectual property rights. These rights incentivize the franchisor to invest in these assets, often reflected in higher initial fees. However, lower fees and royalties can incentivize the franchisee to invest in their own local marketing efforts or develop intangible assets specific to their location. (Windsperger, 2008).

There are areas of responsibility defined by the franchise agreement. The franchisee and the franchisor have the right to decide on these areas. There is a common belief that the franchisee has no freedom in management. Although they may have less freedom than a regular business owner, there can still be innovation in franchise networks (Duckett, 2018). Emerging franchisors usually offer more flexibility in running their business, while mature franchises may have specific requirements for every little detail. The operational or administrative decisions and how much control franchisor and franchisee have can vary (Sexton, 2020). For example, the products and suppliers used are often limited by the franchisor. Similarly, any marketing materials the franchisor wishes to use to promote its business are most likely subject to the franchisor's approval. In the case of advertising and sales promotion, the franchisor's approval is also required. The most important decisions made by the franchisee concern the personnel hired. In this regard, the franchisor is usually the sole decision maker.

Windsperger & Yurdakul (2007), outlines various areas where franchisors hold different levels of involvement and decision-making power. These areas include selecting suppliers (procurement decisions), determining product offerings and prices, designing the franchise outlet (store decoration decisions), developing and implementing marketing campaigns (advertising and sales promotion decisions), and making capital expenditure choices (investment decisions). Additionally, they oversee the

overall financial management (financial decisions) of the franchise. The list also details specific financial aspects with varying franchisor involvement: advertising fees (potential financial support for franchisee advertising), training duration for both ongoing operations (annual training days) and new franchisees (initial training days), and franchise fees (one-time payment for the franchise rights), alongside royalty fees (ongoing percentage of sales paid to the franchisor).

## RESEARCH METHOD

In this research, survey method was used among franchisees to collect the necessary data. Literature on the topic was used to develop the questionnaire and determine the questions. Our measurement of decision rights is informed by the work of Windsperger (2004). He highlights the limitations of solely relying on contractual rights, as they may not accurately reflect the actual distribution of decision-making authority within a business network. The final version of the questionnaire was specifically adapted to enable comparisons between pre- and post-COVID-19 experiences. Following this adaptation, it was translated into Turkish and rigorously tested by experienced scholars specializing in survey development. The survey was designed for franchisees without sectoral differentiation and conducted after some pre-tests in the field. It targeted owners or managers of franchises operating in Istanbul. The participants were given necessary explanations before the survey began.

The socio-cultural development of the city and availability of various franchisees let us conduct this study in various districts in Istanbul, such as Sarıyer, Beykoz, Beşiktaş and Kağıthane. The questionnaire was conducted among 21 franchisees.

A survey questionnaire will be used as the primary data collection method. This method allows researchers to gather data and opinions from franchisees. The survey was administered to 21 franchisees (details in Appendix A). This study does not focus on the success or the failure of the changes implemented during the difficult times. Moreover, the research and the analysis of the survey data aims to explore how franchising networks implemented organizational and administrative changes in response to the pandemic's extreme circumstances. Moreover, face-to-face survey opened opportunities to collect some valuable experiences which helped us to interpret the survey result in a better way.

## DATA ANALYSIS AND RESULTS

### Demographics and Basic Statistics about the Franchising Networks

The COVID-19 pandemic provided a real-world test of franchise networks' ability to cope with extraordinary developments. Franchise agreements typically define administrative and organizational responsibilities between franchisors and franchisees. While these contractual definitions of responsibilities may function well under normal circumstances, difficult times, as experienced in the pandemic, demand agile decision-making and actions. This study investigates the positive and negative adaptations franchisees were forced to make during the pandemic. It further explores whether these organizational and managerial changes (e.g., marketing strategies, supply chain management) were similar across various sectors and remain relevant in the post-pandemic environment.

The survey was conducted with 21 franchise chain owners/managers, including 6 women and 15 men. The following section presents demographics of the survey participants and some statistics about the franchising networks. MS-Excel was used for the survey data analysis.

**Table 3: Gender Distribution of the Survey Participants**

Gender	Number of survey participants	Percentage
Women	6	29%
Men	15	71%
Sum	21	100%

Table 4 shows the age distribution of the survey participants. The majority (76.2%) were between 31 and 50 years old, with 42.9% (9 participants) in the 31-40 age group and 33.3% (7 participants) in the 41-50

age group. The remaining 23.8% (5 participants) were 21-30 years old. Notably, there were no participants under 20 or over 50. This suggests that the franchisee management tends to be younger.

**Table 4: Age Distribution of the Survey Participants**

Age	Number of survey participants	Percentage
21-30	5	24%
31-40	9	43%
41-50	7	33%
Sum	21	100%

The education level of the participants is also quite high. 61.9% (13 participants) had college degrees, 19.1% (4 participants) had high school diplomas, and 9.5% (2 participants) each had associate's degrees and master's degrees. The majority of the respondents hold college degrees according to Table 5.

**Table 5: Education Level of the Survey Participants**

Education	Number of survey participants	Percentage
High school	4	19%
Technical college	2	10%
University	13	62%
Master	2	10%
Sum	21	100%

Table 6 provides a breakdown of the survey participants' franchise experience. A majority of respondents, 66.7% (14 participants), have between 2 and 10 years of experience. More specifically, 38.1% (8 participants) have 2–5 years, while 28.6% (6 participants) have 5–10 years. There is also a presence of both newer and more experienced franchisees, with 19.0% (4 participants) having 1–2 years and 14.3% (3 participants) boasting 10 or more years of experience.

**Table 6: Experience of the Survey Participants**

Experience	Number of survey participants	Percentage
1-2 Year	4	19%
2-5 Year	8	38%
5-10 Year	6	29%
10-15 Year	3	14%
Sum	21	100%

The results of the survey participants in terms of the sectors in which they operate are seen in Table 5 (n=21). 52.4% (11) of the participants are in food sector, 19% (4) are in automobile sector, 13.4% (3) are in service sector, 9.5% are in clothing sector (2) and 4.8 % (1) of them are in other sectors. The majority of respondents are in the food industry.

**Table 7: Sectoral Distribution of the Survey Participants**

Sector	Number of survey participants	Percentage
Food	11	52%
Clothing	2	10%
Automobile	4	19%
Service	3	14%
Other	1	5%
Sum	21	100%

Number of branches is a strong indicator of the size of a franchising network (Le Nadant et al. 2019). As seen in Table 6, 66.7% (14) of participants have more than 40 branches, 23.8% (5) have 20–40 branches, and 10.0% (2) have 1–20 branches.

**Table 8:** Branch Number of the Participated Networks

Number of branches	Number of survey participants	Percentage
1-20	2	10%
20-40	5	24%
40+	14	67%
Sum	21	100%

## Evaluation of the Managerial and Organizational Changes

**Supplier Selection:** Franchises rely on franchisors for products, often obtained from a centralized distribution center. Supplier selection is, therefore, a crucial aspect of franchise network organization. The COVID-19 pandemic significantly overloaded and disrupted logistics and supply chains (Swanson and Suzuki, 2020).

Interestingly, 38% of surveyed franchisees reported taking a more active role in supplier selection compared to pre-pandemic times. However, 100% of those who reported a more active role characterized it as a "small change." Furthermore, 78% indicated these changes did not last after the pandemic.

**Table 9:** Change in the Decisin Rights in the Supplier Selection Process

	Was there any change?		If yes, how big was the change?			If yes, is it still valid?	
	Yes	No	Small	Medium	Large	Yes	No
	%	%	%	%	%	%	%
Have you taken an active role in the <b>supplier selection process</b> with the pandemic? Have your decision rights changed compared to before the pandemic? (n=21)	38	62	100	-	-	13	87

The findings suggest that franchisors granted franchisees a limited role in supplier selection, especially during the peak of the pandemic. This reluctance likely stemmed from concerns about potential "shirking problems" if decision-making became decentralized. However, it's important to acknowledge that increased franchisee involvement could also enhance the network's agility and problem-solving capabilities during disruptions.

**Product Range and Pricing:** Product range and pricing are typically centralized decisions within franchise networks to ensure brand consistency. However, the extreme circumstances of the COVID-19 pandemic led to some changes. Our survey revealed that 48% of franchisees reported taking a more active role in product variety and pricing compared to the pre-pandemic period.

Interestingly, of those who reported increased involvement, 80% characterized it as a "small change" in decision-making authority, while 20% felt it was a "medium level" change. However, similar to the supplier selection trend, 70% of participants stated that these changes were not permanent after the pandemic.

**Table 10:** Change in the Decision Rights Related to Product Range and Pricing

	Was there any change?		If yes, how big was the change?			If yes, is it still valid?	
	Yes	No	Small	Medium	Large	Yes	No
	%	%	%	%	%	%	%
Have you taken an active role in <b>determining product range and pricing</b> with the pandemic? Have your decision rights changed compared to before the pandemic? (n=21)	48	52	80	20	-	30	70

The survey suggests a cautious approach by franchisors. While they did distribute some decision rights regarding product range and pricing during the pandemic, the majority were only "small" or "medium level" adjustments. This shift likely involved allowing additional local promotional campaigns, particularly focused on pricing strategies like regional sales, to address specific customer needs and boost sales during the crisis.

It's understandable that these temporary measures to mitigate the pandemic's impact would be scaled back afterwards. Indeed, the post-pandemic return to a more controlled pricing policy is in line with the focus on brand consistency in franchise networks.

**Investments in the Store:** The pandemic also impacted decision-making regarding store decoration and renovation. Our survey found that 29% of franchisees reported increased involvement in this area compared to pre-pandemic times. Interestingly, among those reporting more involvement, 50% described the increase in decision-making authority as minor, while 33% considered it to be a medium-level change. Significantly, unlike other areas, 100% of participants indicated that these changes in decision-making continued after the pandemic. This suggests that franchisors granted some flexibility in store decoration and renovation during the pandemic, possibly to allow for adaptations based on local customer preferences. Notably, franchisors who allowed this flexibility appear to have maintained it even after the pandemic subsided. This finding suggests potential long-term benefits from joint decision-making in certain areas.

**Table 11:** Change in the Decision Rights Regarding Store Decoration

	Was there any change?		If yes, how big was the change?			If yes, is it still valid?	
	Yes	No	Small	Medium	Large	Yes	No
	%	%	%	%	%	%	%
If the franchise was opened during the pandemic or if there was a renovation during the pandemic, were you actively involved in the <b>store decoration process</b> ? Have your decision rights changed compared to before the pandemic? (n=21)	29	71	50	33	17	100	-

**The Advertising and Sales Promotion:** The need to adapt advertising and sales promotions during the pandemic led to a significant shift in decision-making. A substantial 67% of surveyed franchisees reported taking a more active role in this area compared to pre-pandemic times. This increase in franchisee involvement was noteworthy. Among those reporting heightened participation, 29% described it as a "small change," while a significant majority (57%) felt it was a "big" change in decision rights.

Interestingly, unlike other areas, only 43% of participants indicated these changes were sustained after the pandemic. This suggests a more moderate approach by franchisors compared to other areas.

Our survey suggests that franchisors granted franchisees more leeway in advertising and sales promotion during the crisis. This flexibility allowed for the development of new, localized campaigns to target specific customer needs and boost sales volume in response to the unique challenges of the pandemic. Franchisees themselves acknowledged the positive impact of this approach, highlighting the benefits of regional customization in achieving a competitive edge.

**Table 12:** Change in the Decision Rights Regarding Advertising and Sales Promotion

	Was there any change?		If yes, how big was the change?			If yes, is it still valid?	
	Yes	No	Small	Medium	Large	Yes	No
	%	%	%	%	%	%	%
Have you <b>taken</b> an active role in the advertising and sales promotion process with the pandemic? Have your decision rights changed compared to before the pandemic? (n=21)	67	33	29	14	57	43	57

**Financial Processes:** In contrast to the observed changes in advertising and sales promotion, the survey results indicate that financial processes remained largely centralized during the pandemic. None of the franchisees reported taking on a more active role in financial decision-making, and franchisors did not make any changes in the distribution of decision rights in this area.

This can be attributed to the perception that financial processes are strategic and not directly related to day-to-day operations. Franchisees themselves acknowledged that these processes are of high-level importance, and franchisors likely felt maintaining established protocols ensured stability during uncertain times.

**Table 13:** Change in the Decision Rights Regarding Financial Processes

	Was there any change?		If yes, how big was the change?			If yes, is it still valid?	
	Yes	No	Small	Medium	Large	Yes	No
	%	%	%	%	%	%	%
Have you taken an active role in the <b>financial process</b> with the pandemic? Have your decision rights changed compared to before the pandemic? (n=21)	-	100	-	-	-	-	-

**Staff Selection and Recruitment Processes:** The survey results for staff selection and recruitment present a unique case. Unlike other areas, 100% of franchisees reported being actively involved in these processes throughout the pandemic, with no changes observed after the pandemic. This suggests that staff selection remained a core responsibility for franchisees.

However, concerns exist regarding potential abuse of this autonomy. Some may argue that franchisees could exploit increased decision-making power by offering inadequate training or hiring underqualified personnel. However, such actions would likely backfire, negatively impacting the franchisee's own profitability through issues like high turnover, customer dissatisfaction, and damage to the brand's reputation. Therefore, franchisors might be less hesitant to distribute more decision rights regarding the hiring process compared to other business functions within the network.

**Table 14:** Change in the Decision Rights Regarding Staff Selection and Recruitment Processes

	Was there any change?		If yes, how big was the change?			If yes, is it still valid?	
	Yes	No	Small	Medium	Large	Yes	No
	%	%	%	%	%	%	%
Have you taken an active role in the <b>staff selection and recruitment process</b> with the pandemic? Have your decision rights changed compared to before the pandemic? (n=21)	-	100	-	-	-	-	-

**Determination of the Distribution Channels:** Table 15 highlights a significant change in decision-making regarding distribution channels. Over half (52%) of franchisees reported taking a more active role

in this area during the pandemic compared to pre-pandemic times. This increased involvement was notable. Among those reporting a more active role, 27% described it as a "small change" in decision rights, while a significant majority (55%) felt it was a "big" shift. Furthermore, unlike some other areas, a substantial portion (73%) of participants indicated these changes in determining distribution channel persisted after the pandemic.

These findings suggest that franchisors granted franchisees more flexibility in determining distribution channels during the pandemic. This shift likely arose from the need to adapt to customer behavior changes. With physical store visits limited, many franchisees appear to have embraced a hybrid franchise model, which integrates online sales channels (e-commerce) alongside physical locations (omnichannel commerce). This hybrid approach allows for increased sales opportunities and caters to evolving customer preferences.

**Table 15: Change in the Decision Rights Regarding The Determination Processes of the Distribution Channels**

	Was there any change?		If yes, how big was the change?			If yes, is it still valid?	
	Yes	No	Small	Medium	Large	Yes	No
	%	%	%	%	%	%	%
Have you taken an active role in <b>determining distribution channel</b> with the pandemic? Have your authorities changed compared to before the pandemic? (n=21)	52	48	27	18	55	73	27

As the focus on service and product sales through franchise models continues to grow, brands that invest in modernizing their technology infrastructure are well-positioned for further expansion through the hybrid model. The survey results also indicate franchisor collaboration with franchisees to leverage online and electronic sales channels. This collaborative approach, viewed as beneficial by both parties, appears to have continued on a large scale even after the pandemic subsided.

**Determination of IT Infrastructure:** Table 16 reveals a noteworthy trend in technology adoption. A substantial portion (62%) of franchisees reported taking a more active role in determining technological innovations and building IT systems during the pandemic compared to pre-pandemic times. While the increase in involvement was significant, the nature of the change observed. Among those reporting greater involvement, 62% described it as a "small change" and 38% as a "medium change" in decision rights. Interestingly, similar to distribution channels, a notable percentage (54%) of participants indicated these changes in technological decision-making persisted beyond the pandemic.

These findings suggest that franchisors granted franchisees more flexibility in managing technology during the pandemic. This shift likely stemmed from the need to adapt to changing customer behavior, particularly the limitations on physical store visits. Franchisees recognized the importance of online sales channels and expressed a desire to collaborate with franchisors on investments in new technologies. These investments could include software programs, data management processes, and other digital assets to facilitate online operations and modernize business functions. The survey highlights the importance of communication during this process, by indicating franchisees' ideas were valued by franchisors. Pleasingly, this collaborative approach appears to have endured beyond the pandemic, suggesting a recognition of its mutual benefits.

**Table 16:** Change in the Decision Rights Regarding The Determination of IT Infrastructure

	Was there any change?		If yes, how big was the change?			If yes, is it still valid?	
	Yes	No	Small	Medium	Large	Yes	No
	%	%	%	%	%	%	%
Have you taken an active role in determining <b>technological innovations and the development of IT systems</b> with the pandemic? Have your authorities changed compared to before the pandemic? (n=21)	62	38	62	38	-	54	46

**The Advertising Fee:** Table 17 highlights a significant shift in advertising fees during the pandemic. A substantial majority (76%) of franchisees reported changes in advertising fees compared to pre-pandemic times. Of those reporting changes, most (56%) described them as "medium changes," while a smaller portion (25%) considered them "small changes." However, unlike other areas of flexibility, these changes in advertising fees were largely temporary. Only 25% of respondents indicated that the adjusted fee structures continued post-pandemic.

The survey suggests that franchisors offered franchisees more flexibility with advertising fees during the pandemic, likely to help them cope with challenging circumstances. Franchisees reported receiving discounts on advertising fees due to the decrease in sales during lockdowns and the overall impact of the pandemic. These discounts presumably freed up capital for franchisees to invest in technology, staff costs, cleaning supplies, and other essential areas. However, as economic recovery gained momentum towards the end of the pandemic, it appears that franchisors largely reverted to pre-pandemic advertising fee structures.

**Table 17:** Change in the Decision Rights Regarding The Advertising Fee

	Was there any change?		If yes, how big was the change?			If yes, is it still valid?	
	Yes	No	Small	Medium	Large	Yes	No
	%	%	%	%	%	%	%
Was there a change in the <b>advertising fee rate</b> with the pandemic? (n=21)	76	24	25	56	19	25	75

**The Franchisee's Initial and Annual Trainings:** Table 18 reveals a significant shift in training practices during the pandemic. A large majority (81%) of franchisees reported changes in annual education days and initial training days compared to pre-pandemic times. The nature of these changes seems to be a moderate increase in flexibility. Among those reporting a change, most (65%) described it as a "medium change," while a quarter (24%) considered it a "small change." Interestingly, and unlike some other areas of flexibility, a very high proportion (88%) of respondents indicated that these changes in training delivery persisted even after the pandemic subsided.

Online education became very popular during the pandemic (Adedoyin & Soykan, 2023). Our survey suggests that franchisors adapted their training programs to accommodate the pandemic by offering more online options. This shift likely arose from the limitations on in-person gatherings due to public health concerns. Franchisees themselves indicated a preference for continuing online training due to its perceived advantages, such as reduced time commitment, increased safety, and potentially even greater effectiveness.

**Table 18:** Change in the Decision Rights Regarding The Franchisee's Initial and Annual Trainings

	Was there any change?		If yes, how big a change?			If yes, is it still valid?	
	Yes	No	Small	Medium	Large	Yes	No
	%	%	%	%	%	%	%
Have there been any changes in the number or content of annual education days and initial training days with the pandemic? (n=21)	81	19	24	65	11	88	12

Franchise Fee: Table 19 highlights a significant shift in franchise fees during the pandemic. A substantial portion (62%) of franchisees reported changes in franchise fee amounts compared to pre-pandemic times. The majority (62%) of those reporting changes described them as "big" reductions, while the remaining portion (23%) saw them as "small" reductions. However, unlike some other pandemic-driven adjustments, these changes in franchise fees were largely temporary. Only 15% of respondents indicated that the reduced fee structures continued after the pandemic.

**Table 19:** Change in the The Franchise Fee

	Was there any change?		If yes, how big was the change?			If yes, is it still valid?	
	Yes	No	Small	Medium	Large	Yes	No
	%	%	%	%	%	%	%
Was there a change in the amount of the <b>franchise fee</b> with the pandemic? (n=21)	62	38	23	15	62	15	85

This survey suggests that franchisors offered more flexibility with franchise fees during the pandemic, likely as an incentive to attract new franchisees during a challenging economic environment. Franchisees reported that franchisors took steps to reduce fees, making them more reasonable and offering more manageable payment plans. This approach likely benefited franchises launched during the pandemic. However, as economic conditions improved, it appears that franchisors largely reverted to pre-pandemic franchise fee structures.

The Royalty Fee: Table 20 reveals another significant shift in fees during the pandemic: franchise license fees. A very high proportion (86%) of franchisees reported changes in license fees compared to pre-pandemic times. The extent of these changes appears to be varied. Among those reporting a change, 39% described it as a "small change," while a similar portion (33%) felt it was a "big change". However, mirroring the trend with franchise fees (Table 20), these adjustments were mostly temporary. Only 33% of respondents indicated that the reduced license fee structures continued after the pandemic.

**Table 20:** Change in the Royalty Fee

	Was there any change?		If yes, how big was the change?			If yes, is it still valid?	
	Yes	No	Small	Medium	Large	Yes	No
	%	%	%	%	%	%	%
Was there a change in the amount of the <b>royalty fee</b> with the pandemic? (n=21)	86	14	39	28	33	33	67

This survey suggests that franchisors offered more flexibility with franchise license fees during the pandemic, likely to provide financial support to existing franchisees during a difficult economic period. Franchisees reported that franchisors reduced license fees alongside franchise fees (as mentioned in Table 19) to help them cope with rising expenses and falling revenues. The freed-up capital presumably allowed franchisees to cover costs like rent, cleaning supplies, and technology investments. Similar to franchise fees, it appears that franchisors largely reverted to pre-pandemic license fee structures as economic conditions improved.

## CONCLUSION

The franchise system operates through a contractual agreement between two parties. The franchisor is the owner of a brand and business concept that grants permission to franchisee to operate under their name. A franchisee is an entrepreneur who invests in a franchise to leverage an established brand and benefit from its reputation and support. Both parties are accepted as entrepreneur and network is open to shirking the franchising contract by both parties to realize entrepreneurial motives. The shirking problem has been tried to be prevented through contracts with strict rules. Difficult times might require the collaboration of two parties more and this might lead to change in the proportion of rights distributed in the network. Covid-19 pandemic offered a chance to test the changes in the distribution of decision rights in the main function of a franchise network.

Under normal circumstances, the franchisor is authorized to decide on contractual points and determine the level of responsibility. However, the extraordinary situation caused by the pandemic has led to differences. This research questions the changes in the decision rights in the following areas: supplier selection process, determination of product variety and product pricing, store decoration process, advertising and sales promotion processes, financial processes, determination processes of distribution channels, determination processes of technological innovations and IT systems construction, initial and annual training, advertising fee rate, franchise fee amount, franchise license fee. As a result of the survey analysis, it was found that franchisees communicated more closely with franchisors during the pandemic process and took a more active role in internal processes (contracted) than in the pre-pandemic period. In addition, franchisors were found to have made changes in management decisions and were more flexible, particularly with regard to royalties and advertising fees.

The COVID-19 pandemic significantly impacted the decision-making roles of franchisees. The survey revealed a shift in involvement for many franchisees compared to pre-pandemic times. The most significant increases were seen in areas like advertising and sales promotion (67%) and technological innovation/IT systems (62%). Franchisees also reported a greater role in supplier selection (38%), product variety/pricing (48%), and distribution channels (52%). Interestingly, financial processes and staff selection remained primarily under franchisee control, likely due to their critical role in maintaining stability during uncertain times.

The pandemic also impacted franchisee agreements, with a majority reporting changes in advertising fees (76%), training formats (81%), franchise fees (62%), and license fees (86%). These changes likely reflect efforts by franchisors to support franchisees through challenging economic circumstances.

The pandemic appears to have fostered a more collaborative approach to decision-making within some franchise systems. Franchisors offered flexibility, particularly regarding financial aspects, to support franchisees. However, the findings suggest a high return to the pre-pandemic distribution of decision rights setting once the pandemic subsided.

### Limitations and Additional Considerations

The study focuses on 21 franchisees operating within Istanbul, a subset of a larger network totaling 1000 franchisees. This subset offers valuable insights into decision-making dynamics during challenging times. Expanding the scope to encompass franchise systems across various regions could enrich our understanding and provide a broader perspective on the franchise landscape.

Furthermore, delving into the long-term ramifications of the pandemic on the delicate balance between franchisors and franchisees presents an intriguing avenue for exploration. Did the necessity for heightened collaboration during crisis periods foster enduring shifts in the dynamics of these relationships? Unraveling the lasting implications of this experience could yield valuable insights into the evolution of business interactions within the franchising realm. Another interesting next step would be to evaluate how effective the franchising networks' governance changes were in navigating the pandemic.

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## Appendix – Research Survey

Managerial and Organizational Changes in Franchising Networks during the Pandemic

Dear participant,

This research was created to determine the “Managerial and Organizational Changes in Franchising Networks with the Pandemic”. The study seeks to uncover not only the immediate adaptations made during the Covid-19 pandemic but also to identify potentially beneficial changes that could serve as valuable strategies for navigating future extraordinary circumstances. By examining the efficacy of the adjustments implemented during this crisis, this research aims to provide valuable insights and practical guidance to franchise networks, empowering them to proactively prepare for and effectively respond to future challenges. Through this endeavor, the study endeavors to contribute to the resilience and long-term sustainability of franchise networks by equipping them with the knowledge and strategies necessary to thrive in an ever-evolving business landscape.

Thank you very much for taking your valuable time to support the research.

### Demographic Information

- 1 Gender : Man Woman
- 2 Age :21-30 31-40 41-50 50+
- 3 Education :Elementary school High school Technical college University
- 4 Experience :1-2 Year 2-5 Year 5-10 Year 10-15 Year
- 5 Sector :Food Clothing Automobile Service
- 6 Number of Stores of the Network: 1-20 20-40 40+

### Could you please answer the following questions by comparing them to the process before the pandemic began.

- 1 Have you taken an active role in the supplier selection process with the pandemic? Have your authorities changed compared to before the pandemic?
 

	Yes	No	
If yes, how big is the change?	Small	Medium	Large
If yes, does it continue?	Yes	No	
- 2 Have you taken an active role in determining product range and pricing with the pandemic? Have your authorities changed compared to before the pandemic?
 

	Yes	No	
If yes, how big is the change?	Small	Medium	Large
If yes, does it continue?	Yes	No	
- 3 If the franchise was opened during the pandemic or if there was a renovation during the pandemic, were you actively involved in the store decoration process? Have your authorities changed compared to before the pandemic?
 

	Yes	No	
If yes, how big is the change?	Small	Medium	Large
If yes, does it continue?	Yes	No	
- 4 Have you taken an active role in the advertising and sales promotion process with the pandemic? Have your authorities changed compared to before the pandemic?
 

	Yes	No	
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- If yes, how big is the change?                      Small              Medium    Large
- If yes, does it continue?                              Yes                      No
- 5 Have you taken an active role in the financial process with the pandemic? Have your authorities changed compared to before the pandemic?              Yes              No
- If yes, how big is the change?                      Small              Medium    Large
- If yes, does it continue?                              Yes                      No
- 6 Have you taken an active role in the staff selection and recruitment process with the pandemic? Have your authorities changed compared to before the pandemic?
- Yes                                              No
- If yes, how big is the change?                      Small              Medium    Large
- If yes, does it continue?                              Yes                      No
- 7 Have you taken an active role in determining distribution channel with the pandemic? Have your authorities changed compared to before the pandemic?              Yes              No
- If yes, how big is the change?                      Small              Medium    Large
- If yes, does it continue?                              Yes                      No
- 8 Have you taken an active role in determining technological innovations and the development of IT systems with the pandemic? Have your authorities changed compared to before the pandemic?
- Yes                      No
- If yes, how big is the change?                      Small              Medium    Large
- If yes, does it continue?                              Yes                      No
- 9 Was there a change in the advertising fee rate with the pandemic?
- Yes                      No
- If yes, how big is the change?                      Small              Medium    Large
- If yes, does it continue?                              Yes                      No
- 10 Have there been any changes in the number or content of annual education days and initial training days with the pandemic?
- Yes                      No
- If yes, how big is the change?                      Small              Medium    Large
- If yes, does it continue?                              Yes                      No
- 11 Was there a change in the amount of the franchise fee with the pandemic?
- Yes                      No
- If yes, how big is the change?                      Small              Medium    Large
- If yes, does it continue?                              Yes                      No
- 12 Was there a change in the amount of the royalty fee with the pandemic?
- Yes                      No
- If yes, how big is the change?                      Small              Medium    Large
- If yes, does it continue?                              Yes                      No
- 13 Are there points of improvement, evolution, and differentiation in organizational and administrative issues with the pandemic? Please specify.              Note: