Global Franchising and Development in Emerging and Transitioning Markets

Ilan Alon

Journal of Macromarketing 2004; 24; 156
DOI: 10.1177/0276146704269320

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The conventional wisdom that prevails in the West is that franchising provides a net benefit to the host market. In addition to the obvious economic benefits of employment, output, and tax, franchising development injects expertise and training in various industries and increases the entrepreneurial and managerial capabilities and skills of the labor force. The unique nature of international franchising may, however, create social pressures, cultural clashes, and perceived challenges to national cultures. This article discusses a framework to assess the potential economic and social benefits and costs of international franchising. It then discusses the implication of this framework and an agenda for future research.

Keywords: *international franchising; developing countries; franchise development; economic impact; social impact; opportunity cost; cost-benefit analysis; emerging and transitioning markets*

The positive economic impact of franchising on the U.S. economy is undeniable. One out of twelve businesses is franchised. Franchise businesses account for about $1 trillion in sales and employ more than 8.5 million Americans. A recent study concluded that "franchising is a foremost force in the creation of the U.S. entrepreneurial revolution that continues to fuel the lethargic economy, producing new business owners and jobs" (Franchise Recruiters Ltd. 2003, 2).

Due to domestic market saturation in the United States and the attractiveness of markets overseas, U.S. franchisors have begun to internationalize their concepts. Table 1 includes data on the internationalization of U.S.-based franchising. The information indicates that most franchisors (63 percent) in the United States are seeking international franchisees. It also indicates that international franchising exists in more than sixteen industries, but that some industries, such as food retailing, recreation, and hotels, are more aggressive in seeking international expansion.

Policy makers in emerging markets have observed the economic contributions of franchising in the developed markets and have sought for ways to develop and regulate this form of business. By 1993, at least twenty-four nations developed trade association specializing in franchising (Preble and Hoffman 1995). Today, there are at least fifty-five national and regional franchise associations (International Franchise Association 2004).

In recent years, expansion into emerging markets in Latin America, Eastern and Central Europe, and East Asia and the Pacific has accounted for much of the international expansion of franchising (Welsh and Alon 2001; Alon and Welsh 2001). Franchising has been used by emerging markets as a tool for economic development and for greater global integration. Because, however, franchising in emerging markets is a relatively new emerging phenomenon (Alon and Welsh 2001; Welsh and Alon 2001), its effects have not been adequately examined. This article contributes to the macromarketing literature by delineating a benefit-cost framework to assess the socioeconomic effects of international franchising on transitional and emerging markets. Table 2 summarizes benefits and costs facing emerging and transitioning markets as a result of global franchising activity.

The following discussion examines the link between globalization and franchising, the economic and social effects of franchising, the implications of the suggested benefit and cost framework, and an agenda for future research.

GLOBALIZATION AND FRANCHISING

Globalization—the trend toward a single, integrated, and interdependent global economy propelled by increases in international capital flows, international travel, the cross-border exchange of information and ideas, and trade in goods and services—has prompted franchisors to think of the world as one market and to examine common needs within and across societies. The new global landscape has been shaped by orga-

The author wishes to thank Hildy Teegan, the anonymous reviewers of the *Journal of Macromarketing*, Sanford Grossbart, and Cliff Shultz for their insightful comments, suggestions, and encouragement in writing this article.

Journal of Macromarketing, Vol. 24 No. 2, December 2004 156-167
DOI: 10.1177/0276146704269320

TABLE 1
INDUSTRY ANALYSIS FOR U.S. INTERNATIONAL FRANCHISING

Industry	*Number of Franchisors (in Industry)*	*Seeking International (% Industry)*
Automotive	58	35 (40)
Business services	72	46 (64)
Children's products	30	21 (70)
Food (quick service)	94	40 (43)
Food (full service)	30	18 (60)
Food (retail)	17	12 (71)
Health care	6	4 (67)
Home improvement	59	36 (61)
Maintenance	68	47 (69)
Personal care	22	15 (68)
Pet business	7	5 (71)
Recreation	25	18 (72)
Retail	43	27 (63)
Professional service	74	49 (66)
Technology business	12	10 (83)
Hotels and motels	23	20 (87)
Restaurant (4+5)	124	58 (47)
Food Total (17+6)	141	70 (50)
Total	640	403 (63)

NOTE: Calculated from "22nd Annual Franchise 500" (2001).

nizational and strategic factors, industry structure, and environmental (economic, political, technological, and so on) and nationalistic differences. Cost differentials, greater connectivity (fueled to a large extent by the Internet), and emerging global consumer markets have made internationalization easier and more profitable. As a result, globalization has become a force that affects consumption patterns in emerging nations. Often-mentioned engines of influence include global mass media, tourism, immigration, pop culture, and the international marketing activities of transnational companies (Ger and Belk 1996). In particular, the youth market is increasingly integrated: international franchisors often target this segment of the population when entering developing countries because they are thought to be more open to foreign franchising ideas.

A seminal article by Levitt (1983) examined the globalization of markets and its impact on an organization's internationalization strategy. Levitt suggested that global commonalities driven by advances in technology and communications have led to the standardization of products, manufacturing, and institutions of trade and commerce. These arguments have been echoed by Yip (1989, 1997) and others. Many franchisors have embraced these ideas and attempted to successfully duplicate their business formats across multiple international locations. The resulting international proliferation of certain franchising systems is often seen as an icon of (Western-based economic) globalization.

Franchising is an organizational form primarily used in service industries; it is a method of transferring a business

TABLE 2
IMPACTS OF INTERNATIONAL FRANCHISING

Socioeconomic Benefits	*Socioeconomic Costs*
Output creation (direct, indirect, and induced)	Output destruction due to replacement of nonfranchised businesses
Job creation (direct, indirect, and induced)	Job destruction due to replacement of nonfranchised businesses
Tax base is increased due to more output, higher efficiency of new businesses, and more accurate reporting	Tax loss due to "mom-and-pop" businesses and other SMEs not being able to compete
Tariff on imports associated with international franchising may also increase	Imports may substitute local producers who pay taxes
Economic modernization and infrastructure development	Pains of economic transitioning such as the displacement workers employed in inefficient/outdated industries
Economic clustering/concentration	Uneven economic development
Reduction in capital flight	Short-term BOP deficits due to imported goods and capital outflows
Long-term economic growth Higher level of entrepreneurship and SME development	Possible increased inequality of income due to the new entrepreneurial class
Advanced entrepreneurship via multiple-unit franchising provides higher growth	Advanced entrepreneurship takes away opportunities from individual investors/entrepreneurs who need franchising the most
Franchising diffuses innovations across the system of outlets	Franchising does not guarantee success
Increased competition leads to additional consumer choices and/or lower prices	
Supply chain becomes more efficient	
Franchising education and skill transfer Enhancement of the labor force	Many jobs are menial in nature, requiring a low need for skill development
More expertise and managerial and labor training Exporting Western business models	McDonaldization of society: loss of "humanity" in the consumption and production process due to standardized and mechanistic approach of franchising
Increase in consumer choice	Rationalization of choice
Consistent prices and quality	Prices of foreign franchisors are often higher than local alternatives
Golden Arches theory: countries that espouse economic globalization seek peaceful coexistence with one another	Increase potential for cultural conflict Cultural homogenization or Americanization

format with minimum financial investment. International franchising occurs when service organizations transfer their systems via a contract in exchange for fees and royalties. Franchisors often provide their foreign affiliates with tangible and intangible assets, a modest investment in franchising infrastructure, a knowledge base, trademarks, and other intellectual property.

The globalization debate encompasses more than issues related to international business or franchising.[1] International franchising, however, involves critical dimensions of globalization, particularly in terms of its associated cross-national movements of goods/services, financial capital, and ideas (such as knowledge, innovations, business formats, skills, and capabilities). It is important to realize that international franchising is differentiated from other forms of market entry and distribution, such as licensing, exporting, and foreign direct investment, and thus has differential impact on the environments in which it operates.[2] Shane (1996, 86) concluded that "the use of franchise contracts appears to be an important long-term strategic choice in its own right for international service firms." Given the importance of franchising as a method of expansion for service organizations and its unique influences in the markets in which it is present, its specific economic and social impacts in emerging and transitioning countries should be considered.

ECONOMIC IMPACTS OF INTERNATIONAL FRANCHISING

The economic impacts of franchising include output and job creation, an increase in the tax base, economic modernization, balance of payments' adjustments, small and medium enterprise (SME) and entrepreneurship development, and the acquisition of dynamic capabilities and skills (Dwivedy 2002).

Output and Job Creation

Most scholars mention the positive economic effects that franchising exerts on local economies, including job creation and economic development (e.g., Preble and Hoffman 1995; Alon and Welsh 2001; Welsh and Alon 2001). Domestic output is often increased through direct sales and their multiplier effects. The multipliers of franchising provide a sense of how much influence a given investment will have throughout the economy, although ultimate effects vary by industry and corporate strategy. By providing employment and income for their employees, franchisors stimulate local demand for a variety of goods and services. In addition, cost and availability of supplies often drive franchisors to source locally, which magnifies their positive economic impact on the host market.

The direct employment impact of franchising can be calculated by multiplying the number of franchise outlets by the number of people working in each outlet and adding it to the number of jobs created by the parent company itself. For example, Kodak employed 5,556 employees in its Chinese factories in addition to jobs created in the 5,000 Kodak Express franchising outlets in China (Alon 2001). A study of African franchisors revealed that on average, each franchisor has created about thirty-two direct jobs per year (Siggel, Maisonneuve, and Fortin 2003).

The indirect economic impact of franchising is even more substantial, although less obvious. Indirect job creation occurs through industrial linkages, for example to suppliers and customers, and is often measured by employment multipliers. By one estimate, every franchise unit creates and maintains an average of thirty-three jobs—thirteen direct jobs and twenty or more indirect jobs via other economic exchanges (Saunders 2002). Another study in Africa calculated that for every $5,000 of spending by a franchisor, one job is created (Siggel, Maisonneuve, and Fortin 2003).

Many emerging markets are contending with massive unemployment, underemployment, and labor mobilization problems. Franchising helps to alleviate some of these problems. For example, Sanghavi (2001) argued that franchising is a source of economic development and growth in a number of Central European countries. Table 3 includes a summary of statistics on franchising and its impact on employment in selected developing countries in Asia, Europe, Africa, and the Americas.

Tax Revenue

Raising taxes helps emerging markets develop their physical and institutional infrastructure. International franchisors diversify and indirectly raise the business tax base through their involvement and through their franchisees and small business networks. The tax multipliers are proportional to output and employment multipliers. Multinational franchisors are also more likely to pay their taxes to demonstrate good corporate citizenship. Local companies pay less because they are "connected," evasive, or inefficient and unprofitable. Kodak, for example, paid more taxes in the first six months of operations in China than Fuda Co., one of its purchased companies, has paid in fourteen years. In one of the cities in which the company located, Xiamen, it is the largest taxpayer (Alon 2001).

Economic Modernization

Economic modernization is closely linked to economic development and economic globalization. When large companies such as McDonald's, Allied Domecq, and Kodak have entered emerging markets, they have also invested heavily in local markets to bring their products and services to the companies' standards. For example, in Russia, McDonald's invested in ancillary industries, food-processing facilities, and meat and potato plants, and Allied Domecq (the franchisor of Baskin Robbins and Dunkin' Donuts in Russia) invested

TABLE 3
FRANCHISING OUTLETS AND EMPLOYMENT IN SELECTED EMERGING MARKETS

Country	Number of Franchisors	Number of Franchisees	Annual Sales (Millions $)	Employment
Asia				
China	368	3,000	NA	NA
Indonesia	261	2,000	NA	NA
South Korea	1,300	120,000	27,000	530,000
Malaysia	225	6,000	5,000	80,000
Philippines	500	4,000	105	100,000
Thailand	150	3,000	1,300	15,000
Europe				
Bulgaria	18	NA	NA	NA
Hungary	250	5,000	NA	100,000
Russia	50	300	NA	2,000
The Americas				
Argentina	150	1,500	1,100	NA
Brazil	894	46,534	12,000	226,334
Chile	50	300	250	NA
Colombia	80	600	NA	11,000
Dominican Republic	180	800	NA	5,000
Mexico	500	25,000	8,000	NA
Peru	59	440	375	3,250
Uruguay	148	340	360	3,600

SOURCE: From International Franchise Association (2003).

more than $40 million in supporting infrastructure, production facilities, and various business along the supply chain (Alon and Banai 2000).

Economic restructuring is, however, often painful and associated with a loss of certain jobs, especially ones deemed inefficient by worldwide standards. Ultimately, such restructuring means the elimination of some previously viable businesses. In the case of Kodak, for example, the company consolidated and closed several state-owned plants to modernize the imaging sector in the country, but invested $1.2 billion in building new state-of-the-art manufacturing facilities that rival the most advanced facilities anywhere in the world in terms of technology and output.

A closely related aspect of development and modernization is economic clustering, which is often an outcome of those external economies of scale that are produced by the demand (pull) and supply (push) forces inherent in economic transformation (Siggel, Maisonneuve, and Fortin 2003). In the services sector of the franchising arena, such clustering is evident in the formation of shopping malls, which tend to attract a wide variety of service franchises and help local economic development through taxes, shopping alternatives, and the availability of local jobs. Economic concentration is a function of economic modernization, which is advanced by international franchisors.

Balance of Payments

The impact of franchising on the balance of payments (BOP) is more subtle. On the surface, it seems that franchising is less beneficial than foreign direct investment in terms of BOP and that there is an asymmetry between the benefits accrued by the home and host markets. Franchising helps the home market BOP because local production is not substituted, imports do not increase, and net capital inflows increase due to repatriated profits/royalties. The net benefit of international franchising to the home country helps explain why the U.S. government has been supportive of the International Franchise Association (IFA), a group that primarily represents U.S.-based franchisors, and their internationalization efforts. The Overseas Private Investment Corporation (OPIC) and the U.S. Department of Commerce (USDC) have dedicated personnel to help international franchising expansion.

When one looks at the host market, however, the story is slightly different. Teegan (2000) correctly pointed out that imports to the host country often rise as a result of foreign franchising development because franchisors often import elements of their business formats and sources from the home market. Throughout time, however, franchisors often try to find or develop local sources for host markets' franchisees to become more responsive to local needs and to remain price competitive. Mail Boxes Etc., for example, used this type of strategy in its international operations, first importing key materials and later finding local sources. Invariably, local economic development follows, and indirect and induced economic impacts are increased throughout time. Furthermore, although temporary BOP deficits may occur because of franchising, they are mitigated by transfers of technology, specialized knowledge, and human capital by the foreign franchisor. Another plausible argument advanced by international franchising practitioners is that franchising reduces capital flight by providing opportunities to invest in the developing country (Holt 2003).

Local SMEs and Entrepreneurial Development

One of the big promises of franchising is its ability to develop a host market's small and medium-sized enterprises (SMEs) and bolster local entrepreneurship. In many developing countries, entrepreneurs and their SMEs have only recently become recognized for providing employment and economic development, increasing productivity, and bridging the gap between research and the commercialization of innovation. Most franchisees are SMEs, and franchising is increasingly dominant in certain service industries such as fast food, retailing, and hotels. IFA statistics on franchisors, franchisees, and the sales turnover of franchising in selected developing countries are listed in Table 3 to illustrate the impact of franchising on SME development.

A lesson from U.S. franchising history may reflect the entrepreneurial dynamics in developing countries today. Hunt (1972) evaluated the impact of franchising in the United States when it accounted for only 25 percent of total consumer goods' expenditures. One of his key findings was the ability of franchising to stimulate local independent businesses. His study revealed that franchisees believe that they are independent because they control key operating areas such as hours of operation, bookkeeping, advertising, pricing, standards of cleanliness, and staffing. Second, 52 percent reported that franchising was their only potential path to self-employment. Thus, if the U.S. experience is any indication of franchising growth in developing countries, franchising has the potential to increase the opportunities for SME development by providing the possibility of business ownership to those who would otherwise not take the risk.

More recent research by Siggel, Maisonneuve, and Fortin (2003) also suggests that franchising entrepreneurs are sources of risk-taking and business expansion in emerging markets. They found that fifty-two franchisors from four countries in Africa generated an average of 7.5 franchises per year during a variable period of two to twenty-five years. (These statistics varied in respect to industry and country. For example, fast food, automotive, building, and home services generated more than fourteen franchising units per year in South Africa, whereas the same industries generated fewer than two units per franchisor in Morocco.)

Many franchisors in developing countries also sell multiple-unit franchising contracts through area franchising or master franchising. These types of contracts involve a higher level of risk due to the higher level of required investment and skill level. Siggel, Maisonneuve, and Fortin (2003) found that, on average, 19 percent of these "advanced entrepreneurship" franchisees owned more than one outlet in the African nations they examined. In contrast, Teegan (2000) argued that advanced entrepreneurship excludes private investors who would benefit the most from franchising affiliations and who make up a majority of the franchisees in the United States. Compared to area franchisors who single-handedly own and operate multiple units, master franchisors who subfranchise are less likely to reduce the potential for individual entrepreneurs to participate.

Innovation as a by-product of entrepreneurship is also created via franchising in developing countries. In the African context, Siggel, Maisonneuve, and Fortin (2003) claimed that franchising allows new technologies to be disseminated, brings new business models to the local market, contributes to the productivity growth, and generates external economies. They distinguished between business- and consumer-oriented innovations, stating that the former raises the level of productivity and the latter elevates consumer satisfaction. They also noted that domestic franchisors, domestic suppliers, and franchisees account for 25, 20, and 15 percent of all innovations, respectively, whereas foreign franchisors and suppliers account for 20 percent each.

Education, Dynamic Resources, and the Acquisition of Skills

Entrepreneurship development may also create qualitative improvements in the marketplaces and labor forces of developing countries through education, dynamic resources, and the acquisition of skills.

Education is critical to franchising entrepreneurship and small business development. Franchising education occurs through formal training and through imitation. In some countries, institutions offer franchising education programs. In China, for example, the Chinese Normal University in Beijing recently opened franchising educational centers to train future managers of franchised operations. Franchisors also offer franchisees knowledge about operating systems and processes, experiential business training, a global brand name, periodic improvements, new product innovation, market research, and financial planning.

Foreign franchisors entering into a host country also act as models for local entrepreneurs to imitate. This "demonstration effect" has a significant yet hard-to-measure impact on the local development of SMEs. For instance, Sanghavi (2001) indicated that local entrepreneurs in transitioning countries learn ideas about the management of a brand name, goodwill and reputation, and loyalty to the corporation from existing franchisors. Alon and Banai (2000) showed that franchising in Russia taught entrepreneurs to appreciate the concept and to emulate it in their own businesses.

SME development through international franchising in emerging markets often occurs in steps following a life cycle. First, foreign franchisors enter the market through master franchising, joint ventures, or sole ventures. These entities, in turn, are used to launch local franchising through direct or area franchises. Small businesses in the form of franchisees are then ready to develop throughout the country. Local entrepreneurs learn from these new business systems, emulate and adapt them to local conditions, and, throughout time, attempt to internationalize them to trading partners. Once established in their own markets, franchisors from these host markets may end up entering the foreign franchisors' markets, thereby increasing the global competition in franchising.

Local entrepreneurs observing the success of foreign franchises imitate and adapt individual foreign franchising systems to local tastes and become powerful competitors by developing their own brands and business formats. They compete with foreign franchises both for customers and for qualified franchisees. Ultimately, local franchise entrepreneurs may oust foreign franchisors, establishing a local sphere of control. For example, in South Africa, the majority of franchise systems (82 percent of franchisors) are locally developed, and they, in turn, average about forty-nine units per franchisor (Toit 2002). India and Brazil have vibrant domestic franchising sectors and only limited participation by foreign franchisors. These markets may be classified as receptive to franchising but difficult for international franchisors to enter, because local franchising entrepreneurs have a competitive advantage due to their knowledge of local conditions.

International franchising often transfers knowledge, technology, and human capital, and increases the skills and abilities of the labor force. Technology transfer in this context refers to the transfer of the "learning organization" and of labor skills, in addition to the hardware and machinery that franchisors provide. Three types of transfers occur: (1) operating capabilities, (2) investment capabilities, and (3) innovative capabilities (Stanworth, Price, and Purdy 2001). Franchising offers a range of resources and knowledge to those in developing countries, which enhance their capabilities to operate and maintain a business, provide investment to increase productivity, create new units, and modify and improve methods and products (Stanworth, Price, and Purdy 2001). Siggel, Maisonneuve, and Fortin (2003) also suggested that franchising is responsible for an overall increase in the skills of the labor forces in developing countries. As noted earlier, the transfer of skills and capabilities can extend beyond the franchising sector to other parts of the economy. Entrepreneurs can adapt the skills and routines they see in franchise operations and use them in other businesses.

In a less optimistic appraisal of the benefits of skill enhancement through franchising, Teegan (2000) argued that many of the jobs in franchising are menial in nature and produce little in the way of capabilities in local personnel. If one considers the skills development of a local cook in a McDonald's restaurant, for example, it is hard to be impressed with the "transfer of know-how." There may, however, be substantial contributions to the economy and culture if those with few commercial skills learn how to cook, serve customers, earn a living, run a retailing operation, work in a team, and avoid crime and the underground economy. In addition, transfers of technology and know-how by the franchisor should be viewed more holistically from a country-level perspective and not from the vantage point of a particular job.

The basic assumption inherent in international franchising is that it enhances the chances of local entrepreneurial success due primarily to the transference of a proven business format connected to a well-known brand name. In short, the inherent promise to potential enlistees is that the franchisee will reap risk-reducing benefits by adopting the franchise format (Kaufmann and Leibenstein 1988). For example, Pavlin (2001, 24) observed that Slovenian entrepreneurs discovered the benefits of an association with international franchisors, which include a safer future, good purchasing opportunities, bulk supplies, strategic partnership, international marketing involvement, and high visibility. The franchisor is also responsible for providing resources to train the franchisee's employees.

Franchising, however, does not guarantee success. Even in the United States, where franchising has experienced explosive growth, one-third of all franchisors stop franchising within four years of operation and three-fourths of franchisors stop within twelve years (Light 1997). The statistics on international franchising failure may prove to be much grimmer because of a lack of brand-name recognition in the foreign market, mistrust of foreign interests, lack of qualified franchisees and financial capital, and misunderstanding of cultural, economic, and political variables in host market environments.

THE SOCIAL IMPACTS OF FRANCHISING

Three interrelated social and cultural issues relating to international franchising in developing countries are discussed in this section: (1) standards of living and the rationalization of consumer choice, (2) the *McDonaldizing* of society, and (3) cultural homogenization and social conflict.

Standards of Living and Rationalization of Consumer Choice

The potential for franchising to contribute to higher standards of living and greater consumer choice is affected by demographic and social trends in host societies. The same factors that were responsible for the growth of franchising in the United States in the 1960s and 1970s are now present in many developing countries. These factors include demographic shifts (including the age profile of the population), social changes, and altered consumer demand patterns. For example, as female labor participation has increased in developing countries, family incomes have increased, and new areas of demand have appeared.

There is also evidence that international franchising seems to offer consumers increasing value via stable prices due to the efficient distribution of goods and services and the consistent quality due to standardization. For example, English, Alon, and Xau (2001) found that between 1994 and 2000, the average price of eighteen menu items in a McDonald's in China (in dollars) decreased about 18 percent, whereas the average price of the same items in the United States increased by an average of about 5 percent.

On the other hand, some critics aver that large franchising firms rationalize consumer choice by presenting barriers to entry through monopolistic power, diffusing standardized products, and displacing local operations. For example, the Associated Press (2001) reported that French consumers have protested against McDonald's for trampling local culture, destroying local cheese farmers' jobs, and feeding "bad" food to its children. According to this view, the cultural identification of franchises with a particular country of origin affects the perception of local consumers and thus the acceptance of the franchise. These effects are magnified by global communications, which have led international consumers to identify consumption trends and franchising service leaders and to modify their preferences in favor of the services that are offered by large multinational franchising conglomerates. For example, Italian apparel franchisors such as Benetton have enjoyed a positive image because Italian fashion is highly regarded around the globe. Similarly, American franchisors have attracted customers who wish to identify themselves with American consumerism and Western values and qualities. Alon and Banai (2000) noted that despite their relatively higher prices, local Russian consumers perceive that foreign-franchise goods and services provide a better quality and thus a better value than local offerings.

McDonaldization of Society

Proponents of a standardized global marketing approach envision an environment in which consumers with homogenized tastes and lifestyles will be reached with a single message and satisfied with a single product: a world in which the pursuit of production efficiency, low costs, and reliable products overwhelms idiosyncratic differences among countries and cultures. This reasoning is part of the rationale for integrated global marketing strategies that deemphasize country-specific marketing-mix adjustments and favor global cross-functional integration (Sheth and Parvatiyar 2001). Franchising is an efficient technological and cultural innovation that can be used to target the common needs among consumers across national boundaries.

A number of sociologists have termed the trend toward Westernization and homogenization of consumerism as the *McDonaldization* of society, equating the processes used by the fast-food franchise giant with those of modernization and globalization. Beck (2000, 42) defined McDonaldization as "an ever greater uniformity of lifestyles, cultural symbols and transnational modes of behavior." Accordingly, the McDonaldization of society replaces aspects of local cultures and identities with the symbols of marketing departments of multinational corporations. Alfino, Caputo, and Wynyard (1998, viii) defined McDonaldization as "increased efficiency, calculability, predictability, and control through substitution of human labor power with technology and instrumental rationalization." The McDonaldization thesis was popularized by sociologist George Ritzer, who focused not only on fast-food restaurants but also on new means of consumption and socioeconomic life (1998). In Ritzer's view, McDonaldization is the modern-day equivalent of Max Weber and Karl Mannheim's processes of rationalization, bureaucratization, and dehumanization: conditions inherent in the rational, centralized planning of corporations.

According to Alfino and his colleagues (1998), the four fundamental tenets of Ritzer's McDonaldization theory are (1) efficiency, (2) calculability, (3) predictability, and (4) control. These factors, they claim, create the undesirable outcome of the dehumanization of both workers and consumers and the phenomenon they call the "irrationality of rationality." *Efficiency* involves organizing work to achieve the highest output per input and thus requires following procedures imposed by others. *Calculability* emphasizes the use of numerical measures for all aspects of production (portion sizes, materials' costs, waiting time, and so on), encouraging quantity over quality. *Predictability* entails the routinization, standardization, and uniformity of production and consumption, encouraging consistent mediocrity and scripted interactions. *Control* substitutes human with nonhuman technology, including the use of mechanized processes and the reduction of employees and customers to automatons (Holbrook 1999).

According to some sociologists, franchising systems, through their adherence to standardized rules and business formats, rob workers of their need to think intelligently, forcing people to function as mindless automatons. This pushes various elements of society toward increased and dehumanizing rationalization. Steijn and Witte (1996) found support for the McDonaldization thesis in a study of 1,022 employees in the Dutch labor market. They explained that the interaction between producers and consumers is devoid of "real" humanity and "authentic" products, and is replaced by simulated interactions and products. Ritzer (1998) gave the example of an accounting practice: at franchising chains like H&R Block, employees offer tax services often after only a brief training course, in contrast to the much less scripted and standardized services that a trained and experienced accountant offers.

The McDonaldization thesis casts franchising in a negative light, almost demonizing its features of efficiency, calculability, predictability, and control (Holbrook 1999; Ritzer 1998; Alfino, Caputo, and Wynyard 1998; Steijn and Witte 1996). It should be noted that these same features have been hailed by marketers, economists, management scholars, and franchise practitioners who defend franchising on economic grounds.

Global Franchising, Cultural Homogenization, and Cultural Conflict

According to some social scientists, globalization and global franchising have the potential to create socioeconomic tensions that adversely affect the host markets' consumers, workers, and political organizations. They suggest that globalization fosters tensions between the particular needs of nations, groups, and individuals and the universal pressure to conform to a nascent global capitalistic environment. The nexus of globalization, therefore, is a juxtaposition of competing and diametrically opposed cultural paradigms of traditionalism and modernism, both of which attempt to shape one another and alter the face of globalization (Robertson 1992; Barber 1995; Ger and Belk 1996; Friedman 2000; Beck 2000). This inherent conflict is explained in *Jihad vs. McWorld* (Barber 1995) and *The Lexus and the Olive Tree* (Friedman 2000). *McWorld*, according to Barber (1995), is the force of economic globalization and cultural homogenization. Jihad, the olive tree as described by Friedman (2000), represents the cultural roots that are threatened by globalization.

The franchising company, as the holder of the brand name and financial capital, is sometimes regarded as one of the culprits of globalization. Those who oppose economic globalization usually also oppose global franchising, which they see as representative of the global capitalistic system and a source of social tension. To them, franchising offers a "one-for-all formula" that deemphasizes relativistic, nationalistic, and regional sentiments. Instead, it stresses homogenization and Western or American foreign tastes, values, and traits. Thus, they regard franchising as an agent of economic globalization that imposes commonalities across nations and cultures.

The literature on globalization debates whether such commonality exists. Guillen (2001) reviewed the question Is a global culture in the making? based on evidence from sociology, economics, and business literature. He concluded that although a segmented emerging global culture is in the making, mass consumption is diverse, particularly at the experiential level, and can provoke resistance, irony, selectivity, a resurgent affirmation of identity, and cross-border activism. Scholars in marketing and sociology (Levitt 1983; Sklair 1991) have suggested that the world is increasingly populated by cosmopolitan consumers whose tastes and desires are becoming standardized. Advances in technology and communications, international trade and investment, and the movement of people and ideas drive these global commonalities across nations. Comparing cultural environments facing global franchising in 1988 and 2000, Kaufmann (2001) noted that although cultural differences exist, they are fast disappearing due to advances in technology, international broadcasting, commercial messages, and global brands. He added, however, that the social costs of losing one's local identity are still relevant at the turn of the century and, if anything, are increasing rather than subsiding.

Franchising brings about cultural transformations that are sometimes rejected by traditional elements of host-market societies. By introducing new foods, customs, and services, the franchisor is an agent of change who modernizes lifestyles and consumer demand. Teegan (2000) discussed this cultural modernization in the context of franchising in Mexico. In that market, the term *malinchismo* (selling out) is used to express the preference for foreign-made rather than domestically produced goods. The term comes from the name of an indigenous woman, La Malinche, who betrayed the country by providing valuable services to the invading Spanish forces in Mexico. *Malinchismo* behavior in Mexico is associated with higher income and education levels, younger ages, and larger households.

Social discontent with American-led globalization, and with franchising in particular, is sometimes expressed by resistance. For example, on December 15, 2001, a bomb went off in a McDonald's located in Xi'an, an ancient city in the People's Republic of China containing the famous terracotta warriors. According to Reuters (2001), the fact that the bomber targeted McDonald's—an icon of American influence—in a city with a substantial Uighur population (ethnic local Turkic people who claim descent from Genghis Khan, speak a Turkic language, and follow the Muslim religion) could signal more than simple revenge by disgruntled workers or jilted lovers, which the Chinese claimed as a motive for the attack.

In 1995, when KFC entered India, it was besieged by protesting farmers in Bangalore. KFC was also accused by nongovernmental organizations of serving chicken with high levels of monosodium glutamate, forcing it to close its New Delhi outlet. More recently, animal rights activists in India protested outside KFC's only remaining outlet in India (also in Bangalore), accusing it of cruelty and the unacceptable killing of more than 700 million (mistreated) chickens (Yahoo News 2003). Despite these setbacks, according to the director of Indian marketing, the company serves from 2,000 to 2,500 customers daily and is growing at an annualized rate of 18 percent.

It might be argued that the previously described cases are examples of resistance to cultural imperialism operating under the umbrella or disguise of globalization. It is important, however, to note that franchising is just one element of U.S. global influence and that, ironically, franchising itself is not an American idea. It traces back to fifteenth-century Spain when Queen Isabella granted Columbus a travel-and-trade franchise, and to nineteenth-century England when British brewers sought commercial distribution avenues. It was first used in the United States in the 1850s by the Singer Sewing Machine Company and popularized by Americans in the 1950s and the 1960s by fast-food chains. Thus, cultural borrowing, either in the form of commercial innovation or cultural icons, is a function of cultural dynamism that is reflected in the desires of people in developing as well as developed countries.

In contrast to critics, some observers see more positive qualities and diversity in the emerging global economy. For example, Legrain (2003) suggested that consumption patterns only indicate skin-deep commercial choices that are not reflective of the more traditional elements of culture (shared beliefs, ideas, knowledge, and art). He noted observations of Taliban in Afghanistan sporting Nike bags. Globalization, according to him, brings about a lovely stew of cultural mixing and exchange that gives life to the coexistence of a multitude of cultural symbols, offerings, and artifacts, freeing people around the world from the "geographic tyranny" within which they live. Franchising, according to this view, expands the variety of choices and does not have a fundamental impact on society.

Moreover, observers note that franchising need not involve a uniform business model and standardized marketing strategy. Global marketing is not inconsistent with country-based marketing adjustments (Alon and Welsh 2001, 2003; Welsh and Alon 2001, 2002; Sheth and Parvatiyar 2001; Thompson and Merrilees 2001; Pine, Zhang, and Qi 2000). For example, hotels doing business in China often modify their marketing strategies to fit local conditions. In addition, according to company sources, it will take McDonald's about nine years (starting from 1996) to have an entirely Indian-based menu. The company has already made significant modifications to its food offerings, including the Paneer Salsa Wrap, McCurry Pan, McAloo Tikki (a mutton specialty for a country that does not eat beef), and the Chicken Maharaja Mac (BBC 2003; Legrain 2003). Subway is also adapting to the Indian market (DeLuca 2002). Due to religious prohibitions against pork (Muslim) and beef (Hindu), Subway uses lamb, chicken, and turkey rather than pork or beef in its sandwiches and offers a variety of new vegetarian subs such as hummus and falafel. Subway's operational format has also changed. Counter area and preparation areas are separated because vegetarians prefer not to be served from the same place that nonvegetarian foods are prepared.

Perhaps the most positive view is advanced by Friedman (2000). His Golden Arches thesis is based on the observation that no two nations containing McDonald's restaurants have confronted each other in a war. This highly contested proposition suggests that nations with McDonald's have rising middle classes, similar aspirations and economic ties, and resulting preferences for peaceful coexistence and sociopolitical cooperation versus armed conflict.

DISCUSSION AND FUTURE RESEARCH

It remains to be seen whether globalization through franchising has such extremely negative social consequences to host countries that the long-term consequences are irretrievably negative. This article has contributed to the literature by highlighting economical and social effects of franchising from a macro perspective, developing a benefit-cost taxonomy for examining these effects, and suggesting the need for policy decision makers in developing countries to consider a spectrum of socioeconomic effects of global franchising.

Implications and extensions of this framework are examined in the following subsections. They are discussed in terms of an agenda for research on variation in economic and social effects and the economic, competitive, cultural, regulatory, and organizational environments of franchising in emerging and transitioning nations.

Variation in Effects

Detailed empirical studies of franchising in transitioning economies, with an emphasis on both positive and negative externalities, should provide useful knowledge for resolving some of the key debates that were identified in the prior discussion. Researchers may find that the cost-benefit impacts of franchising differ in alternative emerging markets due to moderating factors that have received insufficient attention.

The distribution of effects throughout time and across parties involved also merits investigation. Some of the costs and benefits are more apparent in the short run, whereas others are experienced later or require learning among the actors. Thus, researchers should identify the nature and magnitudes of short-run and long-run costs and benefits. For example, a franchisor may encounter resistance in the short run, but after some cultural learning, the market may accept the franchised format. In addition, costs and benefits may not fall equally on the same actors or stakeholders. A franchisor and franchisee may profit by selling to market segments that like the franchised format while they endure disruption from other actors. The antisocial actions of the latter may create costs for the law enforcement authorities and landowners but not for the franchisee.

Some economic benefits of franchising to the host nation may, however, be offset by economic and social costs that may make franchising investment prohibitively expensive in the short term. The economic transformation that follows franchising may seem, by Western standards, necessary for growth and prosperity. Researchers should examine the opportunity cost of franchising and the processes that promote franchising expansion while minimizing its disruptive influences.

The Economic Environment of Franchising

Both output and employment multipliers need to be developed to measure the economic impact of franchising on the host nation. These economic multipliers are likely to be affected by the economic structure of the host nation and the industry in which the franchisor operates. Table 1 identified sixteen different industry categorizations of franchising businesses. This article attempted to generalize the economic and social impacts of franchising across industries and, thus, did not examine sector or industry-specific differences. Researchers should investigate whether such differences exist.

For example, certain franchise sectors, such as restaurants, retailing, and hotels, can help facilitate tourism, which is an important component of economic development in some emerging markets such as Croatia, Mexico, and the Caribbean Islands. Other industries such as business services, technology franchises, health care services, and professional services may help spawn and support other businesses. Other economic externalities may result from franchises that focus on quality-of-life dimensions, such as child care, home improvement and maintenance, personal care, pet care, and recreation services. The connectivity of the industry to the local economy may also influence its local impacts. Makhija, Kim, and Williamson (1997) showed that the industry's international linkages and its integration of value-added activities are related to the industry's level of globalization. The level of global integration, in turn, affects the impact that franchising will have on the host market environment. With the knowledge on industry-specific influences, local governments can invite and support franchising systems that provide the maximum benefit (and/or minimum cost) to their economy.

The Competitive Environment of Franchising

The competitiveness of the franchise sector will continue to have a ripple effect on the economy in a number of respects. A vibrant and competitive domestic franchising sector should be more resistant to foreign competition and able to stave off negative economic consequences such as an impact on balance of payments. Second, a competitive domestic franchising environment can revive the service sector and its supporting industries. Most developed countries' gross domestic products (GDPs) are dominated by the service sector, and some nations, such as the United States, have a balance of payments surplus in services. Does franchising have the potential to modernize the service sectors of developing countries, and, if so, what sectors are likely to benefit the most? Increasingly, local franchising systems compete effectively with international ones in their local and regional markets. More research is needed to identify types of franchising systems that benefit the host nation in these ways and on how local franchisors can be developed to effectively compete with foreign franchises in global markets. It is possible that throughout time, local franchisors will be able to replace some international franchisors due to their better abilities to respond to local needs and tastes.

The Cultural Environment of Franchising

Despite their importance to franchising acceptance, the societal impacts of franchising have been largely ignored in the marketing literature. The IFA recently (in August 2002) commissioned a study on the economic impact of franchising and routinely publishes articles for the promotion of franchising globally. Yet few articles discuss the cultural significance of a franchising concept. Many questions remain relating to the impact of franchising on the social environment. For example, is cultural homogenization through franchising part of a trend toward globalization, and, if so, is it desirable/controllable? Is cultural conflict inherent in the interaction of global franchising with local interests? If so, what are the ways to cope with such divergence?

A related topic is the impact of the franchisor's country of origin in the host market. Franchising is likely to be interpreted differently in different countries, and the meaning of a franchising brand is apt to be locally construed. For example, in the United States, McDonald's may be perceived as a source of cheap fast food on the road, whereas the same system in China may be seen as a higher class and trendy restaurant. According to Teegan (2000), franchisors from developed markets benefit more from positive country-of-origin perceptions than franchisors from emerging nations. On the other hand, foreign consumers may also think that Pizza Hut is Italian and that Taco Bell is Mexican and ignore corporate origins. What are the country-of-origin perceptions of foreign franchisors from different nations, and what are their social consequences in emerging markets?

The Regulatory Environment of Franchising

Some countries' governments have expressed concerns about the imbalance of power inherent in franchise contracts between franchisors and franchisees and about the possibility of pyramid-type swindles marketed under the guise of franchising (Alon and Welsh 2001, 2003). They have drafted regulations to address these problems. There is little evidence on the impacts of these regulations on franchising development. Research on this topic will help host governments devise regulations that will foster franchising and minimize its negative impacts.

Another issue concerns the type of regulation(s), if any, that should be used to promote and control the impact of franchising organizations within a developing nation. Teegan (2000) noted that the minimum regulation that many franchisors prefer creates information asymmetry and promotes opportunistic behavior on the part of foreign franchisors. On the other hand, overregulation will tend to repel international franchisors from making investments in the host market. Thus, governments may seek to protect local interests of entrepreneurs while providing an environment in which franchising can thrive. Countries in the Far East and Central Europe have achieved franchising growth through deregulation, the adoption of international commercial law, and the formation of local franchising associations. Developing a model for optimal franchising development in host nations is a worthwhile research goal.

The Organizational Environment: Franchising versus Nonfranchising

The franchising literature is replete with papers and articles examining the causes of a firm's decision to franchise. The impact of this decision on the host market has, to our knowledge, never been studied. Castrogiovanni and Vozikis (2000) suggested that franchisors are more likely to use franchising versus ownership in their foreign outlets due to the risk involved. For example, to minimize their risk exposure, American franchisors are also more likely to use area-based and multi-unit franchising arrangements rather than direct franchising or wholly owned operations in emerging markets. Are there differences in the economic and social impacts of franchised versus nonfranchised firms on a host economy? One way to address this issue is to compare, as Siggel, Maisonneuve, and Fortin (2003) suggested, employment, output, or labor impacts of franchised-based versus independently owned businesses in the same sector.

This article provides a framework for examining the socioeconomic impacts of franchising. It is hoped that it will stimulate research on the influence of franchising development in different emerging and developing markets. Research that bridges the macro-micro gap, moves across levels of analysis, and focuses on specific industries, across nations, and/or throughout time will help further our understanding of franchising and its role in globalization. Case studies of specific developing countries that gauge economic and social effects of franchising will also be helpful. Research in these areas has the potential to improve our understanding of the specific effects of franchising and the mere general effects of globalization. These studies will help macromarketing scholars address important effects of the idea advanced by political philosopher John Stuart Mill in the 1800s:

> The economical benefits of commerce are surpassed in importance by those of its effects which are intellectual and moral. It is hardly possible to overrate the value, for the improvement of human beings, of things which bring them into contact with persons dissimilar to themselves, and with modes of thought and action unlike those with which they are familiar. . . . It is indispensable to be perpetually comparing (one's) notions and customs with the experience and example of persons in different circumstances. . . . There is no nation which does not need to borrow from others. (as quoted in Legrain 2003, B7)

NOTES

1. Two current debates—one published by the World Bank ("Stiglitz-Rogoff Debate" 2002) between Joseph Stiglitz (the 2001 Nobel Prize economist, author of *Globalization and Its Discontents*, and former World Bank chief who is anti-IMF) and Kenneth Rogoff (economic counselor and director of the Research Department at the IMF who is pro-IMF), and one published by *Foreign Policy* ("Dueling Globalizations" 1999) between Thomas Friedman (foreign affairs columnist for *The New York Times* and author of *The Lexus and the Olive Tree* [2000] who is proglobalization) and Ignacio Ramonet (editor of *Le Monde diplomatique* who is antiglobalization)—exemplify some of the existing divergent thinking on the topic of globalization.

2. For a more complete discussion of the differences between franchising and other business formats abroad such as licensing, exporting, and foreign direction investment, please see Alon (1999), Burton and Cross (1995), and Aydin and Kacker (1990).

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Ilan Alon is an associate professor of international business and director of the Global Practicum Program at Crummer Graduate School of Business, Rollins College. He is the author more than sixty published articles, chapters, and conference papers, and the author or coeditor of five franchising books: The Internationalization of U.S. Franchising Systems *(1999);* International Franchising in Emerging Markets: China, India, and Other Asian Countries *(2001);* International Franchising in Emerging Markets: Central and Eastern Europe and Latin America *(2001);* International Franchising in Industrialized Markets: North America, Pacific Rim, and Other Developed Countries *(2002); and* International Franchising in Industrialized Markets: Western and Northern Europe *(2003).*