

Challenges Facing the Coffee Shop Industry in the Franchising Sector (Case Study in Shiraz)

Abstract

This study explores the key challenges confronting the coffee shop industry within the franchising sector, with a particular focus on the market in Shiraz, Iran. Employing a mixed-methods approach, the research combines qualitative insights from expert interviews with quantitative data gathered through structured questionnaires completed by industry professionals. Eleven critical challenges were identified, including customer satisfaction, human resource management, economic constraints, competitive vision, stakeholder participation, innovation, resource availability and capabilities, supply chain management, governmental oversight and ecosystem, uncertainty, and fear of failure.

To investigate the interdependencies and hierarchical relationships among these challenges, the study utilizes Interpretive Structural Modeling (ISM). The ISM model reveals a multi-level structure, highlighting the interactions and relative priorities of the identified factors. Further analysis using MICMAC (Matrice d'Impacts Croisés Multiplication Appliquée à un Classement) categorizes the variables based on their driving power and dependence. The results indicate that governmental oversight and fear of failure are the most influential and independent challenges, whereas customer satisfaction and human resources are highly dependent on other variables.

These findings offer strategic insights for franchisors, franchisees, and policymakers seeking to enhance the sustainability and competitiveness of the coffee shop franchising sector in emerging markets. The study contributes to academic literature on franchising and provides practical implications for addressing operational and strategic challenges in the service industry.

Keywords: Coffee shop industry, Franchising, Business challenges, Interpretive Structural Modeling (ISM), MICMAC analysis

1.Introduction

In recent years, franchising has emerged as one of the most effective and widely adopted strategies for business expansion across various industries (Ramírez-Hurtado et al., 2011). This model enables entrepreneurs to benefit from established brand recognition, operational frameworks, and marketing systems, thereby minimizing the risks typically associated with launching a new venture. Among the sectors that have experienced rapid growth through franchising, the coffee shop industry has been particularly prominent, especially in urban centers where demand for high-quality, convenient, and experience-driven services is on the rise.

As a subset of the broader hospitality and food service industry, the coffee shop sector plays a critical role in shaping urban economies and consumer culture. In cities like Shiraz, Iran, coffee shops serve as more than mere retail outlets; they have evolved into important social hubs, workspaces, and cultural gathering points. However, the expansion of this sector through franchising presents a unique set of challenges. While franchising offers advantages such as shared marketing, standardized operations, and increased brand visibility, both franchisors and franchisees encounter significant barriers that can affect profitability, sustainability, and long-term success.

This study investigates the challenges facing the coffee shop franchising industry in the city of Shiraz, a major economic and cultural hub in southern Iran. The choice of Shiraz provides a valuable case for understanding franchising in a mid-sized urban market with a growing consumer base and a dynamic business environment. Although franchising has been extensively studied in developed economies, research on this model in emerging markets—particularly in the Middle East and Iran—remains limited. This study aims to address this gap by identifying and analyzing the most pressing challenges that affect the scalability and performance of coffee shop franchises in this region.

To achieve this, the study adopts a mixed-methods approach, integrating qualitative insights from expert interviews with quantitative data collected through structured questionnaires. The research employs Interpretive Structural Modeling (ISM) to systematically explore the interrelationships among the identified challenges. ISM is a well-established technique in management and operations research, particularly useful for understanding complex systems composed of interdependent variables (Saxena et al., 1990; Chacko et al., 2020). To further refine the analysis, the study also applies MICMAC analysis (Matrice d'Impacts Croisés Multiplication Appliquée à un Classement) to classify the variables based on their driving power and dependence.

Through this process, the study identifies eleven key challenges—including customer satisfaction, human resources, economic conditions, competitive vision, stakeholder participation, innovation, resource capabilities, supply chain management, governmental oversight, uncertainty, and fear of failure—and maps their interdependencies in a hierarchical framework.

This study aims to systematically identify, structure, and prioritize the key challenges facing the coffee shop franchising sector in Shiraz, Iran, using an interpretive structural modeling (ISM) approach. Unlike prior studies that list challenges descriptively, this research focuses on modeling the hierarchical and causal interdependencies among these challenges, thereby offering a structured roadmap for strategic intervention. The primary research questions are:

1. What are the key challenges confronting the coffee shop franchising industry in Shiraz?
2. How are these challenges interrelated, and what is their hierarchical structure?

3. Which challenges act as root-level drivers (independent variables), and which are outcomes (dependent variables) in the system?

By answering these questions, the study contributes to both theory and practice by providing a contextualized, empirically grounded framework for diagnosing systemic weaknesses in franchise ecosystems in emerging markets.

This research contributes to both academic and practical domains. Theoretically, it enriches the literature on franchising in emerging markets and offers a structured methodology for analyzing business challenges. Practically, the findings provide actionable insights for franchisors, franchisees, and policymakers striving to enhance the resilience and performance of the coffee shop franchising sector in Iran and similar contexts.

2. Literature Review

2.1. Introduction to Franchising

Franchising is a strategic business model that facilitates rapid business expansion by allowing independent entrepreneurs (franchisees) to operate under the brand, products, and systems of an established firm (franchisor) (Ramírez-Hurtado et al., 2011; Baena & Cerviño, 2014). This model has gained wide acceptance across various industries—particularly in retail, hospitality, and food services—due to its potential to reduce entrepreneurial risk and enhance operational efficiency (Alon et al., 2012).

In the coffee shop industry, franchising enables brands to offer a consistent customer experience across locations while expanding their market presence. As urban consumers increasingly seek convenient, high-quality, and socially engaging environments, franchising has become a popular vehicle for scaling such businesses (Gillis et al., 2020; Rahimi, M., & Khajeh, M. 2024).

To contextualize the identified challenges, this study draws on three complementary theoretical frameworks:

- **Resource-Based View (RBV):** Challenges such as *innovation capacity*, *resource and capability constraints*, and *supply chain management* can be interpreted through RBV, which posits that sustainable competitive advantage stems from valuable, rare, inimitable, and non-substitutable (VRIN) resources (Barney, 1991). In the franchising context, the inability of franchisees to access or develop such resources undermines system-wide performance.
- **Agency Theory:** The *franchisor-franchisee conflict* and *fear of failure* reflect principal-agent tensions, where misaligned incentives and information asymmetry lead to opportunistic behavior and risk aversion (Eisenhardt, 1989). This is particularly relevant in Iran's underdeveloped franchising legal framework, where monitoring mechanisms are weak.
- **Entrepreneurial Risk Theory:** The *fear of failure* as a dominant driver aligns with entrepreneurial risk perception models (McKnight et al., 2012), where uncertainty in regulatory, economic, and market conditions amplifies psychological barriers to investment.

These theories collectively frame the challenges not as isolated issues but as systemic manifestations of structural, relational, and cognitive gaps within the franchising ecosystem.

2.2. Franchising Models

Franchising can take several forms, the most common being business format franchising, where franchisees adopt not only the brand but also the full operational model of the franchisor (Chacko et al., 2020; Asgarian

& Hosseini, 2016). This model is prevalent in service-oriented sectors, including coffee shops, due to its emphasis on standardized procedures, training, marketing, and supply chain systems.

Additionally, franchising can be classified based on geographic scope: domestic and international franchising. Although international franchising has been well-studied in developed markets, its dynamics in emerging economies remain less explored (Mandanoglu et al., 2017; Javalgi et al., 2007).

2.3. Franchising in the Service Sector

The service sector has been a major adopter of franchising, particularly in food and beverage, hospitality, and personal services (Ni & Alon, 2010). In this context, franchising helps ensure brand consistency and service quality across locations while allowing businesses to scale efficiently (Brady & Cronin, 2001). However, service franchises also face distinct challenges, such as maintaining quality control, ensuring customer satisfaction, and managing the franchisee-franchisor relationship (Paik & Choi, 2007).

2.4. Challenges in Franchising

Despite its advantages, franchising presents numerous challenges that vary by industry and location (Grewal et al., 2011). Key challenges include:

Brand consistency across franchise locations; Selection and training of suitable franchisees; Supply chain management to ensure reliable product delivery; Regulatory and legal compliance; Cultural and consumer preference differences; Conflict between franchisors and franchisees; Innovation and adaptability in dynamic markets; Access to capital and financial constraints; Human resource recruitment and retention; Economic volatility; Fear of business failure.

These challenges have been highlighted in global studies, particularly in food service and hospitality sectors (Altinay et al., 2016; Gillis et al., 2020).

2.5. Franchising in Iran

Franchising in Iran, especially in the food and beverage sector, has shown steady growth (Asgarian & Hosseini, 2016). However, the market still lacks the regulatory structure and institutional support seen in more developed economies (Sanobar et al., 2017). Unique challenges in the Iranian context include:

Lack of comprehensive franchising laws; Limited access to financing; Infrastructure deficiencies (logistics, digital platforms); Cultural differences in consumer behavior; Insufficient franchising expertise among entrepreneurs.

Research has shown that managerial capability, brand quality, and social capital are key factors in determining franchise success in Iran.

2.6. Research Gap

Although many global studies have explored franchising, few have focused on structural interrelationships among franchising challenges, particularly in Iran's coffee shop industry. Previous studies often emphasize fast food or international chains and rely mostly on quantitative methods without examining how challenges are interlinked.

This study addresses that gap by using Interpretive Structural Modeling (ISM) to uncover the hierarchical relationships among key franchising challenges in Shiraz. It contributes both to the academic understanding of franchising in emerging markets and to the practical efforts of improving performance in Iran's service sector.

3. Research Methodology

This study adopts a mixed-methods research approach, combining qualitative and quantitative data to explore and analyze the challenges facing the coffee shop industry in the franchising sector in Shiraz, Iran. The research design is exploratory and descriptive, aiming to identify key challenges and model their hierarchical relationships using the Interpretive Structural Modeling (ISM) technique. The methodology is structured around five key phases: (1) identification of key variables, (2) development of the structural self-interaction matrix (SSIM), (3) derivation of the reachability matrix, (4) level partitioning of variables, and (5) ISM model development and MICMAC analysis.

3.1. Conceptual Basis of ISM

ISM is a qualitative and interpretive technique that transforms expert judgments into a hierarchical model of cause-and-effect relationships. The process involves identifying key variables, defining their pairwise relationships, and constructing matrices to analyze reachability and influence.

The ISM methodology involves the following steps:

1. Identification of Key Variables: Based on literature review and expert consultation, 11 key challenges were identified: customer satisfaction, human resources, economic aspects, competitive vision, participation, innovation, resources and capabilities, supply chain management, governmental oversight and ecosystem, uncertainty, and fear of failure.
2. Development of Structural Self-Interaction Matrix (SSIM): This matrix captures the pairwise relationships between variables, indicating whether one factor influences another.

The structural self-interaction matrix is composed of the identified factors and their comparison using four conceptual relationships (V, A, X, O). This matrix was completed by people working in the coffee shop industry in the franchise field. The resulting information was summarized and the majority rule was used to integrate the experts' opinions in order to form the final structural self-interaction matrix. The SSIM uses four symbols: V (A influences B), A (B influences A), X (mutual influence), and O (no relationship). These were determined through expert consensus. The final relationships obtained can be seen in Table 1. (i row, j column)

V: Factor i affects factor j.

A: Factor j affects factor i. (Inverse relationship)

X: Factors i and j both affect each other. (Bidirectional relationship)

O: Factors i and j do not affect each other. (No relationship)

Table 1 :Structural self-interaction matrix

1	2	3	4	5	6	7	8	9	10	11		
Customer satisfaction	Human Resources	Economic aspect	Competitive landscape	Participation	Innovation	Resources and capabilities	Supply chain management	Government and ecosystem regulatory	Uncertainty	Fear of failure		
	V										Customer satisfaction	1
		A	X								Human Resources	2
			V								Economic aspect	3
				O							Competitive landscape	4
					A						Participation	5
						O					Innovation	6
							V				Resources and capabilities	7
								A			Supply chain management	8
									A		Government and ecosystem regulatory measures	9
										V	Uncertainty	10
											Fear of failure	11

As shown in Table 1, the SSIM captures asymmetric and bidirectional relationships—for instance, *governmental oversight* influences *economic conditions* (V), but not vice versa

3. Reachability Matrix Construction: This matrix identifies both direct and indirect relationships between the variables.

In this step, the structural self-interaction matrix is converted into the initial access matrix, which is obtained by converting the structural self-interaction matrix into a two-valued matrix of zero and one. To extract the received matrix, in each row of the self-interaction matrix, the number one is used instead of the symbols X and V, and the number zero is used instead of the symbols A and O. The resulting matrix is called the initial received matrix. The elements of the main diagonal are set to one.

Table 2: Initial Access Matrix

1	2	3	4	5	6	7	8	9	10	11		
Customer satisfaction	Human Resources	Economic aspect	Competitive landscape	Participation	Innovation	Resources and capabilities	Supply chain management	Government and ecosystem	Uncertainty	Fear of failure		
1	1	0	1	1	0	0	1	0	0	0	Customer satisfaction	1
0	1	0	1	0	0	0	1	0	0	0	Human Resources	2
0	1	1	1	0	0	0	1	0	1	0	Economic aspect	3
0	1	0	1	1	0	0	1	0	0	0	Competitive landscape	4
0	1	0	0	1	0	0	0	0	0	0	Participation	5
1	0	0	1	1	1	1	1	0	0	0	Innovation	6

1	1	0	0	0	0	1	1	0	1	0	Resources and capabilities	7
0	0	0	0	1	0	0	1	0	0	0	Supply chain management	8
1	1	1	1	1	1	1	1	1	1	0	Government and ecosystem regulatory measures	9
1	1	0	1	0	1	0	1	0	1	0	Uncertainty	10
0	1	1	1	1	0	1	1	0	0	1	Fear of failure	11

4. Level Partitioning: Variables are grouped into different hierarchical levels based on their reachability and antecedent sets.

After the initial access matrix is formed by incorporating transportability into the relationships of the variables, the final access matrix is formed. Transportability of conceptual relationships between variables is a basic assumption in the interpretive structural model (ISM). Transportability indicates that if variable A affects variable B and variable B affects variable C, then A also affects C. According to the steps and rules stated in Chapter 3, the final access matrix was obtained as shown in Table 2 The ones with an asterisk indicate that the initial access matrix was zero and became one after adaptation.

In this matrix, the influence and degree of dependence of each variable are also shown. The influence of a variable is obtained from the sum of the number of variables affected by it and the variable itself. The degree of dependence of a variable is obtained from the sum of the variables it is affected by and the variable itself (Table 3).

Table 3: Final Access Matrix with Influence Power - Dependency of Each Challenge

	1	2	3	4	5	6	7	8	9	10	11		
Power of influence	Customer satisfaction	Human Resources	Economic aspect	Competitive landscape	Participation	Innovation	Resources and capabilities	Supply chain management	Government and ecosystem regulatory	Uncertainty	Fear of failure		
5	1	1	0	1	1	0	0	1	0	0	0	Customer satisfaction	1
4	0	1	0	1	1*	0	0	1	0	0	0	Human Resources	2
9	1*	1	1	1	1*	1*	1*	1	0	1	0	Economic aspect	3
4	0	1	0	1	1	0	0	1	0	0	0	Competitive landscape	4
4	0	1	0	1*	1	0	0	1*	0	0	0	Participation	5
8	1	1*	0	1	1	1	1	1	0	1*	0	Innovation	6
8	1	1	0	1*	1*	1*	1	1	0	1	0	Resources and capabilities	7
4	0	1*	0	1*	1	0	0	1	0	0	0	Supply chain management	8
10	1	1	1	1	1	1	1	1	1	1	0	Ecosystem government regulatory actions	9
8	1	1	0	1	1*	1	1*	1	0	1	0	Uncertainty	10
10	1*	1	1	1	1	1*	1	1	0	1*	1	Fear of failure	11
	7	11	3	11	11	6	6	11	1	6	1	Degree of dependency	

5. Interpretive Structural Model (ISM) Diagram: A visual representation of the hierarchical structure of variables is created.

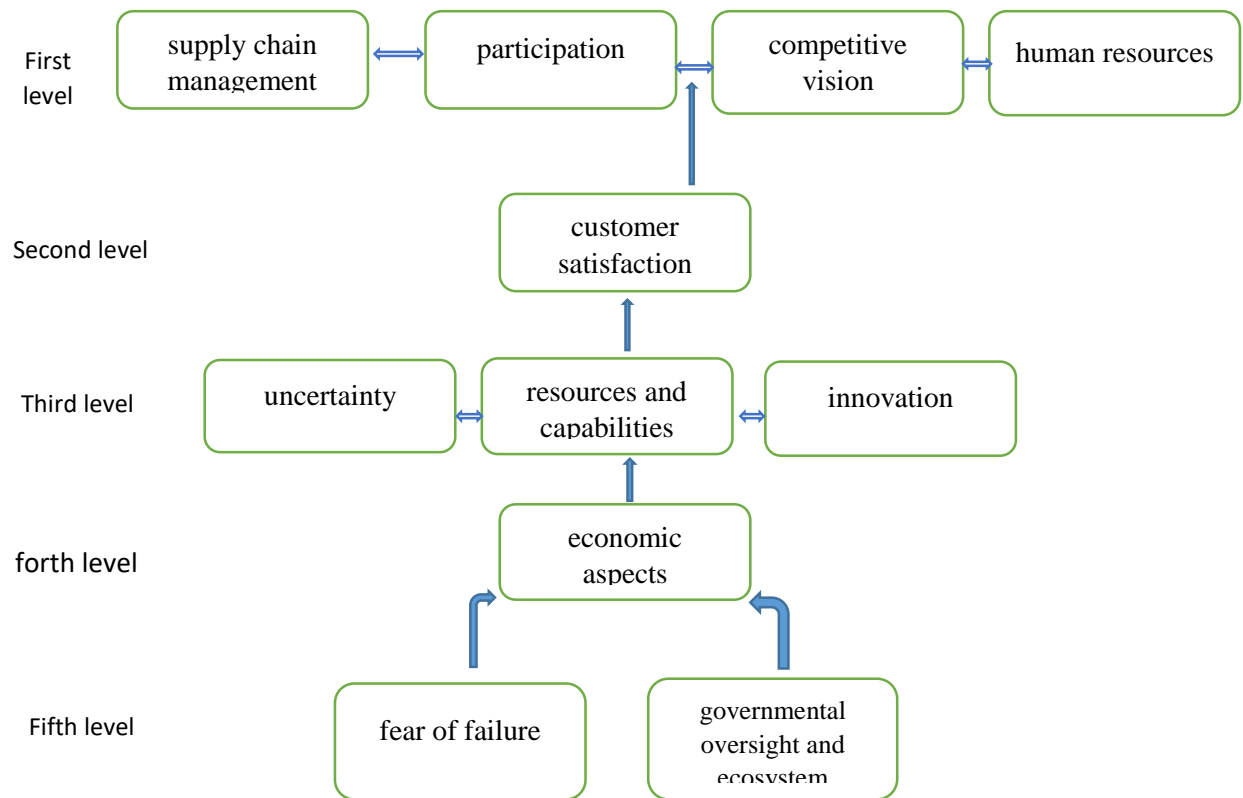


Figure 1: Hierarchical Structure of Challenges in Coffee Shop Franchising (ISM Model)

6. MICMAC Analysis: This step categorizes variables based on their driving power (how much they influence other variables) and dependence (how much they are influenced by others), allowing for strategic prioritization.

The results of the MICMAC analysis identified four clusters:

- Autonomous variables: Low driving power and low dependence (not present in this study).
- Dependent variables: High dependence and low driving power (e.g., customer satisfaction, human resources).
- Linkage variables: High dependence and high driving power (e.g., supply chain management, innovation).
- Independent variables: High driving power and low dependence (e.g., governmental oversight and ecosystem, fear of failure).

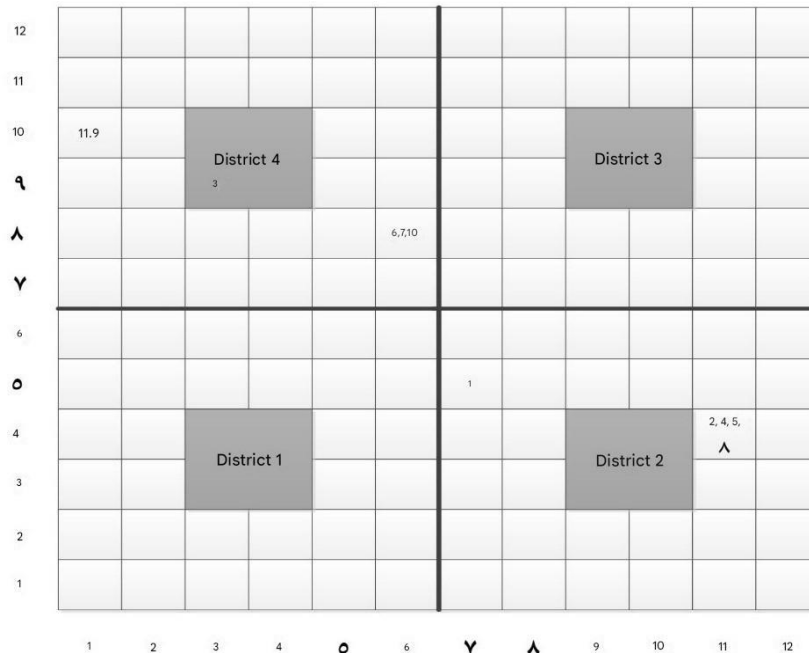


Figure 2: MICMAC Classification: Driving Power vs. Dependence of Challenges

These classifications provide strategic insights into which variables should be prioritized in policy and operational planning. For instance, independent variables, which are critical drivers, should be addressed first to create a conducive environment for franchising success.

4. Research Design and Approach

The study is exploratory in nature, as it seeks to identify and understand the key challenges in coffee shop franchising, particularly in an emerging market context like Shiraz. It is also descriptive, as it provides a structured model of the interrelationships among these challenges. The mixed-methods approach allows for both in-depth qualitative insights and quantitative validation of the identified factors.

The qualitative phase involved conducting semi-structured interviews with industry experts, including franchisors, franchisees, and business consultants. These interviews were used to identify and validate the key challenges based on real-world experiences and observations. The results from the qualitative phase were then used to design a structured Likert-scale questionnaire, which was distributed to a broader sample of professionals in the coffee shop franchising industry.

4.2. Data Collection

4.2.1. Quantitative Data Collection

The Structural Self-Interaction Matrix (SSIM) was developed based on semi-structured interviews with 15 domain experts purposively selected to ensure representativeness across the franchising ecosystem:

- 5 franchisors (owners of multi-unit coffee shop chains in Shiraz)

- 6 franchisees (operators of franchised coffee shops with 2+ years of experience)
- 4 consultants (specialists in franchising, hospitality, and SME development)

Experts were selected based on minimum 5 years of experience in the Iranian coffee shop sector and prior involvement in franchising decisions. Interviews lasted 45–60 minutes and were audio-recorded and transcribed.

For each pair of challenges, experts were asked: “Does challenge A influence challenge B?” Responses were coded using the standard ISM symbols (V: $A \rightarrow B$, A: $B \rightarrow A$, X: $A \leftrightarrow B$, O: No relation).

In cases of disagreement, a majority rule (≥ 8 out of 15) was applied to determine the final relationship. While the Delphi method could enhance consensus, the use of majority rule is consistent with prior ISM studies in emerging markets (e.g., Chacko et al., 2020; Kumar & Suresh, 2007) where rapid consensus-building is prioritized due to limited expert availability.

4.2.2. Qualitative Phase

Based on the qualitative findings, a structured questionnaire was designed using a 5-point Likert scale. It was distributed to 170 professionals (managers, owners, and staff) in Shiraz’s franchised coffee shops. A total of 152 responses were returned (90% response rate), of which 145 were valid.

4.3. Instrument Validation

The questionnaire was validated through expert review and pilot testing with 20 participants. Cronbach’s $\alpha = 0.87$, indicating high internal consistency.

4.6. Ethical Considerations

All participants were informed about the purpose of the study and assured of confidentiality and anonymity. Written consent was obtained before administering the questionnaire or conducting interviews. Participants were also informed that they could withdraw from the study at any time without consequence.

5. Results

This section presents the findings from the application of Interpretive Structural Modeling (ISM) and MICMAC analysis to the 11 challenges identified in the Shiraz coffee shop franchising sector.

5.1. ISM-Based Hierarchical Model

The ISM technique produced a five-level hierarchy among the challenges. At the lowest level are Customer Satisfaction and Human Resources, indicating high dependence and limited influence on other variables. In contrast, Governmental Oversight and Ecosystem and Fear of Failure appear at the top, reflecting their role as the most influential and independent drivers in the system.

ISM Hierarchy Overview:

Level 1 (Most Dependent): - Customer Satisfaction - Human Resources

Level 2: - Competitive Vision - Participation - Supply Chain Management

Level 3: - Economic Aspects - Innovation - Resources and Capabilities - Uncertainty

Level 5 (Most Independent): - Governmental Oversight and Ecosystem - Fear of Failure

This structure illustrates the cascading influence of top-level factors on those at the operational level.

Classification of Variables: MICMAC analysis further classified the 11 challenges based on their driving power and dependence:

Table 4: Classification of Variables MICMAC analysis

Variable	Driving Power	Dependence	Cluster Type
Customer Satisfaction	Low	High	Dependent
Human Resources	Low	High	Dependent
Competitive Vision	Medium	Medium	Linkage
Supply Chain Management	Medium	Medium	Linkage
Participation	Medium	Medium	Linkage
Economic Aspects	Medium	Medium	Linkage
Innovation	Medium	Medium	Linkage
Resources and Capabilities	Medium	Medium	Linkage
Uncertainty	Medium	Medium	Linkage
Governmental Oversight	High	Low	Independent
Fear of Failure	High	Low	Independent

This classification highlights that independent variables should be addressed first to enable broader improvements throughout the system.

6. Discussion

6.1. Interpretation of Results

The findings reveal that the most dependent challenges—Customer Satisfaction and Human Resources—are outcomes of systemic factors such as economic conditions, innovation capacity, and regulatory support. In contrast, Fear of Failure and Governmental Oversight function as root causes, influencing nearly all other challenges in the hierarchy.

This suggests that policy-level and psychological factors play a foundational role in the success or failure of franchised coffee shops. Addressing these drivers could unlock improvements across operational and customer-facing dimensions.

The finding that *fear of failure* and *governmental oversight* are independent drivers (i.e., high driving power, low dependence) is not merely statistical—it reflects systemic fragility in Iran’s entrepreneurial ecosystem.

- *Fear of failure* acts as a root cause because in the absence of strong social safety nets, bankruptcy carries severe social and financial consequences, discouraging innovation and investment (McKnight et al., 2012). This fear permeates all levels of the franchise system, from franchisor expansion plans to franchisee operational risk-taking.
- *Governmental oversight*, while intended to regulate, often introduces uncertainty due to inconsistent enforcement and lack of franchising-specific laws. This unpredictability amplifies risk perception and hinders long-term planning.

In contrast, *customer satisfaction* and *human resources* are highly dependent, meaning they are outcomes of upstream factors. For example, poor supply chain management leads to inconsistent product quality,

which reduces customer satisfaction. Similarly, economic volatility limits salary competitiveness, affecting HR retention.

These findings extend Altinay et al. (2016) by showing not just *that* regulatory support matters, but *how* it structurally enables or constrains other challenges through causal pathways.

6.2. Implications for Stakeholders

For Franchisors: Focus on enhancing innovation, financial stability, and support systems that help reduce fear of failure among franchisees.

For Franchisees: Emphasize building team capability and customer satisfaction through training and service quality improvements.

For Policymakers: Develop clear legal frameworks for franchising and provide financial and educational support to foster entrepreneurship.

6.3. Comparison with Prior Research

These findings align with global literature identifying innovation and regulatory support as key enablers in franchise performance (Altinay et al., 2016; Chacko et al., 2020). However, this study extends the analysis by structurally modeling interdependencies specific to the Iranian context, where regulatory uncertainty and psychological risk aversion are more pronounced.

6.4. Strategic Contribution

The ISM-MICMAC framework not only identifies the challenges but also prioritizes intervention. By targeting high-driving variables first, stakeholders can efficiently cascade improvements throughout the franchise system.

7. Limitations and Future Research

While findings are context-specific to Shiraz, Iran, they offer transferable insights for similar emerging markets characterized by:

- Weak franchising regulation
- High economic volatility
- Informal business networks
- Cultural aversion to entrepreneurial risk

However, direct generalization to other regions (e.g., Latin America or Southeast Asia) is cautioned, as institutional, cultural, and market conditions vary significantly. Future comparative studies are recommended.

This study is limited to Shiraz, a mid-sized city in Iran, and may not reflect challenges in larger metropolises or other emerging economies. The cultural and institutional context—particularly high regulatory uncertainty and risk-averse entrepreneurship—may amplify the influence of *fear of failure* and *governmental oversight* in ways not replicable in more developed franchising markets.

Future research should adopt multi-city or cross-national designs to test the robustness of the ISM model across diverse emerging markets.

Additionally, future studies could explore the longitudinal effects of policy changes or market shifts on these challenges, using quantitative modeling techniques such as structural equation modeling (SEM) to validate the ISM results.

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