




BUSINESS MODEL INNOVATION IN FRANCHISING: STRATEGIES FOR SUSTAINABLE PROFITABILITY

INOVAÇÃO DO MODELO DE NEGÓCIOS EM FRANQUIAS: ESTRATÉGIAS PARA RENTABILIDADE SUSTENTÁVEL

INNOVACIÓN DEL MODELO DE NEGOCIO EN FRANQUICIAS: ESTRATEGIAS PARA LA RENTABILIDAD SOSTENIBLE

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ABSTRACT

Franchise network expansion can no longer be understood merely as the replication of a business format. It increasingly requires strategic coordination, adaptive capability, and the structured use of innovation and digital transformation mechanisms. Based on a theoretical-conceptual review of the literature, this article examines how entrepreneurial leadership shapes franchise expansion through the articulation of relational governance, operational digitalization, calibrated autonomy, and risk control. It argues that sustainable network performance does not result solely from standardization, but from the ability to combine system-wide consistency with local learning, vertical cooperation, and efficient knowledge transfer. The analysis suggests that successful expansion tends to depend on leadership capable of integrating entrepreneurial initiative, organizational discipline, and digital coordination tools while preserving brand integrity and long-term competitiveness.

Keywords: Franchising. Entrepreneurial Leadership. Digital Transformation. Strategic Innovation. Risk Management.

RESUMO

A expansão de redes de franquias não pode mais ser compreendida apenas como a replicação de um formato de negócio. Ela exige, cada vez mais, coordenação estratégica, capacidade adaptativa e o uso estruturado de mecanismos de inovação e transformação digital. Com base em uma revisão teórico-conceitual da literatura, este artigo examina como a liderança empreendedora molda a expansão das franquias por meio da articulação da governança relacional, da digitalização operacional, da autonomia calibrada e do controle de riscos. Argumenta-se que o desempenho sustentável da rede não resulta apenas da padronização, mas da capacidade de combinar consistência sistêmica com aprendizado local, cooperação vertical e transferência eficiente de conhecimento. A análise sugere que uma expansão bem-sucedida tende a depender de uma liderança capaz de integrar iniciativa empreendedora, disciplina organizacional e ferramentas de coordenação digital, preservando, ao mesmo tempo, a integridade da marca e a competitividade de longo prazo.

Palavras-chave: Franquias. Liderança Empreendedora. Transformação Digital. Inovação Estratégica. Gestão de Riscos.



RESUMEN

La expansión de redes de franquicias ya no puede entenderse únicamente como la replicación de un formato de negocio. Requiere cada vez más coordinación estratégica, capacidad adaptativa y el uso estructurado de mecanismos de innovación y transformación digital. Con base en una revisión teórico-conceptual de la literatura, este artículo examina cómo el liderazgo emprendedor moldea la expansión de las franquicias mediante la articulación de la gobernanza relacional, la digitalización operativa, la autonomía calibrada y el control de riesgos. Se argumenta que el desempeño sostenible de la red no resulta solo de la estandarización, sino de la capacidad de combinar la consistencia del sistema con el aprendizaje local, la cooperación vertical y la transferencia eficiente de conocimiento. El análisis sugiere que una expansión exitosa tiende a depender de un liderazgo capaz de integrar la iniciativa emprendedora, la disciplina organizacional y las herramientas de coordinación digital, al tiempo que preserva la integridad de la marca y la competitividad a largo plazo.

Palabras clave: Franquicias. Liderazgo Emprendedor. Transformación Digital. Innovación Estratégica. Gestión de Riesgos.



1 INTRODUCTION

Contemporary franchising literature indicates that network expansion should no longer be interpreted as the mechanical reproduction of a previously validated business format. Although the traditional logic of franchising is strongly associated with operational standardization, brand replication, and scalability, recent studies show that sustained expansion requires a more sophisticated strategic approach, especially in environments marked by volatility, market heterogeneity, and competitive pressure [1,2]. In this context, entrepreneurial leadership becomes central because growth depends not only on opening new units, but also on coordinating economically independent actors without undermining system coherence [3].

This discussion requires a clear distinction between entrepreneurial leadership and entrepreneurial orientation. Entrepreneurial orientation is generally associated with proactiveness, innovativeness, and risk-taking at the organizational level. Entrepreneurial leadership in franchise systems, by contrast, involves the ability to translate those dispositions into coordination mechanisms, partner selection criteria, support structures, and control routines that enable growth with stability [4]. In other words, it is not enough for a network to value initiative; leadership must be able to align such initiative with operational, reputational, and strategic parameters consistent with the franchise model.

Innovation in this setting should not be reduced to the occasional introduction of new technologies or isolated product adjustments. In franchise networks, innovation has organizational and relational dimensions because it depends on how franchisors and franchisees share information, process opportunities, and implement change without fragmenting the identity of the network [5]. The literature indicates that cooperative strategies can strengthen system responsiveness, particularly when innovation is treated as a coordinated process rather than as a fragmented set of local decisions [5,6]. This reinforces the idea that successful expansion is not an automatic consequence of network size, but the result of organizational arrangements capable of sustaining learning, adaptation, and consistent execution [7].

Digital transformation deepens this shift in perspective. Rather than representing mere technological modernization, digitalization reshapes how the network monitors performance, reduces information asymmetry, and disseminates operational knowledge. Studies on franchising and digital transformation suggest that digital systems can strengthen franchisor-franchisee relationships by increasing process visibility, supporting data-based decision-making, and accelerating the replication of effective practices [8,9]. In this sense, digital resources operate as a governance infrastructure because they help track indicators,



standardize critical workflows, support remote training, and maintain consistency across geographically dispersed units [9,11].

A further implication of digital transformation in franchise systems is that innovation becomes more scalable when it is embedded in repeatable managerial routines rather than treated as an isolated technological upgrade. In this context, dashboards, standardized reporting structures, remote auditing tools, and shared knowledge platforms do not merely increase operational visibility; they also reduce coordination costs and support faster organizational learning across units. This means that digitalization contributes to profitability not only through efficiency gains, but also by making adaptation more structured, measurable, and transferable throughout the network.

However, the presence of digital systems does not eliminate the need for strategic judgment. One of the core challenges of franchise expansion lies precisely in calibrating the relationship between standardization and autonomy. The reviewed literature suggests that franchisee autonomy may contribute to performance, affective commitment, and innovativeness when embedded in an organizational framework capable of distinguishing what can be locally adapted from what must remain uniform [10]. This distinction is crucial because some dimensions of the operation, such as brand identity, core protocols, intangible asset protection, and minimum quality standards, require greater uniformity, whereas others, such as commercial adjustments, responsiveness to local preferences, and incremental learning, may allow more flexibility [10,12].

The relationship between digitalization and autonomy also deserves careful treatment. Digital solutions tend to increase the franchisor's monitoring capacity, but their strategic value should not be confused with excessive centralization. When used solely as surveillance tools, such systems may reduce local initiative and weaken relational commitment. When used as coordination, support, and learning tools, they become mechanisms that enable responsible autonomy and better-informed decision-making [8,9]. Accordingly, digital transformation is more effective when it strengthens governance without suppressing the adaptive capacity of local units.

Another key dimension of sustainable expansion is vertical cooperation. The literature suggests that the quality of the franchisor-franchisee relationship directly influences the system's capacity to implement innovation, share knowledge, and preserve strategic alignment [5,13]. Channel leadership models that are excessively coercive or purely transactional tend to restrict commitment and weaken the cooperative potential of the network. By contrast, leadership styles associated with relational legitimacy, more qualified communication, and trust-based coordination tend to encourage stronger adherence, better



knowledge circulation, and greater consistency in execution [2,13]. This point is especially relevant in networks operating across multiple markets, where cooperation does not replace contractual governance, but enhances its effectiveness.

In addition, the sustainability of franchise expansion depends on the franchisor's ability to select, prepare, and retain franchisees whose managerial profiles are compatible with the strategic logic of the network. Expansion problems frequently emerge not from the absence of opportunity, but from misalignment between growth objectives and partner capabilities. For this reason, entrepreneurial leadership must also be reflected in recruitment criteria, onboarding structures, training intensity, and post-entry support systems. These mechanisms help ensure that local initiative operates within an organizational logic that protects both brand consistency and long-term network performance.

Risk management should also be treated as a structural component of expansion rather than as a later corrective mechanism. In franchise systems, risk goes beyond poor financial performance; it also includes quality variation, opportunistic behavior, reputational erosion, execution failures, and the loss of intangible assets. For that reason, entrepreneurial leadership is expressed less through an abstract willingness to grow than through the ability to design controls proportionate to the type of risk faced [3,13]. Control systems, training, support, digital monitoring, and cooperation mechanisms must operate in a complementary manner to reduce vulnerabilities without undermining competitive dynamism [11,13].

This logic becomes even more complex in multi-unit franchising strategies. In such arrangements, expansion combines the exploitation of successful routines with broader operational adaptation, requiring more sophisticated coordination across different leadership levels [12]. Competitive advantage, in this case, does not derive merely from network size, but from the ability to preserve organizational coherence while multiple units respond to distinct local environments. This shifts the analysis of franchising away from a purely contractual view toward one centered on organizational capabilities, intellectual capital, and management systems.

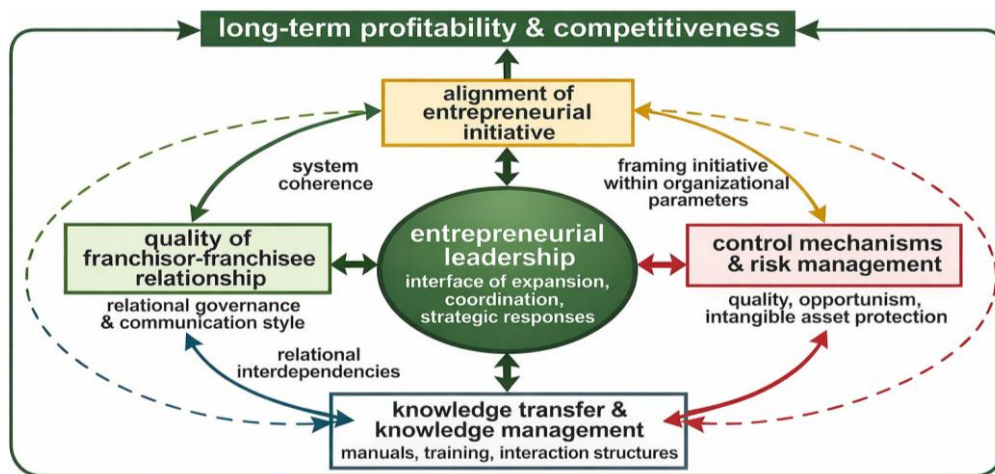
From this perspective, manuals, training systems, support routines, and knowledge transfer mechanisms are not secondary administrative instruments. They form the cognitive infrastructure of the network and directly influence performance. Research on intellectual capital and management control systems in franchising shows that cooperation mediates an important part of this relationship, suggesting that knowledge produces competitive effects only when it circulates through organizational structures capable of converting it into consistent practice [13]. Likewise, studies on franchise relationships indicate that stronger

outcomes tend to emerge when entrepreneurial initiative, organizational support, and relational governance operate in an integrated manner [4,6].

From a strategic standpoint, sustainable profitability in franchising should therefore be interpreted as the outcome of coordinated capability building rather than simple unit expansion. Networks that grow without strengthening governance structures, learning routines, and partner alignment may increase scale while simultaneously amplifying operational fragility. By contrast, networks that treat innovation, control, and cooperation as mutually reinforcing dimensions are better positioned to convert expansion into durable competitive advantage. This perspective is especially relevant in volatile markets, where resilience depends less on size alone than on the quality of system integration.

Figure 1

Strategic leadership framework in franchise systems



Source: Created by authors.

In summary, franchise network expansion should not be understood as the simple multiplication of units supported by brand and standardization alone. The reviewed literature suggests that sustainable growth depends on the integration of entrepreneurial leadership, organizational innovation, digital transformation, vertical cooperation, calibrated autonomy, and proportionate control mechanisms. More than choosing between standardization and adaptation, the strategic challenge of contemporary franchising lies in defining where each of them adds value to the system. Within this framework, entrepreneurial leadership plays a decisive role by transforming growth into structured coordination while preserving operational consistency, local learning, and long-term competitive capacity [3,5,10,12].



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