

**The Nature of Ethics Codes in Franchise
Associations Around the Globe**

By

John F. Preble
Associate Professor
Department of Business Administration
University of Delaware
Newark, DE 19716
(302) 831-1778
Fax (302) 831-4196

and

Richard C. Hoffman
Associate Professor
Perdue School of Business
Salisbury State University
Salisbury, MD 21801
(410) 548-5398
Fax (410) 548-2908

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Abstract

The worldwide growth of franchising has been phenomenal during the past decade. At the same time there has been increased media attention to questionable business practices in franchising. Similar to some trade associations and professions, franchising has sought self-regulation by developing codes of conduct or ethics. This study examines the codes of ethics covering franchising activities in 21 countries. The results reveal that there is considerable variation in the activities/issues covered by the codes. Specifically, the codes cover most stages of the franchising relationship, focus on a narrow set of stakeholders, are short on ethical guidance, and offer few enforcement provisions. The implications of these findings for international franchising and research are discussed.

Keywords: Ethics codes; Global franchising; Self-regulation; Stakeholders.

The Nature of Ethics Codes in Franchise

Associations Around the Globe

Ethics are frameworks for human conduct that relate to moral principles and attempt to distinguish right from wrong (Miesing and Preble, 1985). This study examines the nature of ethical codes in franchising worldwide. While the growth, development, and international dissemination of franchising as a business system has been explosive in the last couple of decades, preserving high levels of integrity and ethics among network members is problematic and requires careful diligence. Broadly, franchising's constituents are the several thousand franchisors, several hundred thousand franchisees, employees, and suppliers, millions of customers, numerous governmental agencies, the media (press), and the general public where potential franchisees are recruited (Hoffman and Preble, 1991). With such a large and complex network as just described, the opportunities for ethical violations to occur over time are numerous. To the extent that the media tends to overreport in detail ethical breaches and underreport franchising's success stories (Rudnick, 1994), a negative perception of franchising's behavior is possible with legislative initiatives often being the outcome (Konigsberg, 1996).

Prior research on international codes of ethics has focused on the nature and extent of individual company codes of ethics (e.g., Langlois and Schlegelmilch, 1990; Lefebvre and Singh, 1992), or on the emergence of supranational codes promulgated by organizations such as the United Nations and the International Chamber of Commerce (e.g., Frederick, 1991; Getz, 1990). Little is known about what the franchising sector is doing internationally to provide ethical guidance to its members. In this study we explore new ground by surveying franchising associations around the globe to determine if they have developed ethical codes for their membership. Where such codes exist, we seek to examine: the elements that are emphasized; which stakeholders are covered; how much ethical guidance the codes provide; and what enforcement provisions exist. The results of this initial effort should indicate the current status and future directions for managing ethical franchise relationships in international markets.

The Environment of International Franchising

Franchising is an arrangement, where, a manufacturer or marketer of a product or service grants exclusive rights to local, independent entrepreneurs (franchisees) to conduct business in a prescribed manner in a certain place over a specified period of time (Seltz, 1982). In the United States and in world markets franchising has emerged as a highly significant strategy for business growth, job creation, and economic development (Hoffman and Preble, 1991). Using business format or package franchising (i.e., a complete way of doing business) some 400 U.S. franchisors increased their overseas units in the 1980s by more than seventy percent to almost 39,000 units (Preble and Hoffman, 1995). The majority of these units were located in Canada, Japan, Europe, Australia, and the United Kingdom. Non-U.S. franchisors are also growing rapidly as a result of improved economic conditions, the upgrading of infrastructures, deregulation, freer trade, etc. (See Table I). Canada has over 1,000 franchisors with over 25,000 units selling C\$17 billion. Japan has more than 700 franchisors, having more than 131,000 units and 11 trillion yen in sales. France has some 500 hundred franchisors with 27,000 units producing about \$34 billion in sales. Australia, Italy, Germany, and the U.K. all have major franchising segments. Franchised systems are being developed in Argentina, Austria, Hong Kong, Hungary, Mexico, Netherlands, Sweden , and Switzerland. Franchising is truly emerging as a global phenomenon, with fast food, retailing and hotels being the fastest growing segments (Preble and Hoffman, 1995).

In such a rapidly evolving environment there is an even greater need to control the franchising relationship with ethical codes due to problems associated with growth and change. As franchise systems grow internationally, franchisors acquire unequal power and information asymmetry relative to franchisees placing them in a potential position to manipulate disclosure and performance results when recruiting new franchisees. Acquisitions and restructuring of franchise systems often leave franchisees with foreign owners (e.g., Holiday Inns, Seven-Eleven) giving franchisees the feeling their rights may be compromised. Moreover, competitive pressures have led to problems of encroachment (i.e., locating new units too close to existing ones) and lax attention to training and support commitments. While franchisees have sought regulatory relief from many of the above developments, the franchising sector prefers self-regulation and,

as a result, franchise associations have developed codes of ethics that more closely govern the manner in which franchise relationships are established, structured, implemented, and terminated.

One of the key purposes of industry or association codes is to get participants to commit publicly to a set of core values against which its actions can be measured (Langolois and Schlegelmilch, 1990). Similarly, Frankel (1989) suggests that a profession's code of ethics is a visible and explicit enunciation of its professional norms, its moral dimension, its collective conscience. Frankel further suggests that codes can be aspirational or ideals (notions of right and wrong) to which practitioners should strive; educational in providing commentary and interpretation to demonstrate means for resolving ethical dilemmas encountered in the profession; and/or regulatory which provides detailed rules to govern professional conduct and prescribe grievance procedures due to the inadequacy of laws as a remedy and the advantages to business of this approach over government regulation (Weller, 1988).

The Study

The present study examines the state of the art in franchising association ethics codes around the globe in terms of their origin, content, and enforcement provisions. Langlois and Schlegelmilch (1990:522) define a code of ethics as "A statement setting down corporate principles, ethics, rules of conduct, codes of practice or company philosophy concerning responsibility to employees, shareholders, consumers, the environment or any other aspects of society external to the company."

Data Collection: The data for this study were obtained as part of a larger survey which was designed to determine the current status and general characteristics of franchising outside the United States (Preble and Hoffman, 1995). The survey instrument was sent to the International Franchising Association's (I.F.A., Washington, D.C.) 23 "sister" national franchise associations in North and South America, Asia, and Europe. These organizations make up the Council of Multinational Franchisors and Distributors (COMFAD), a worldwide network of international franchise executives and resources. Ultimately, usable data were obtained from 17 franchise associations. Briefly, the results of that study

indicated that while the level of development of franchising by country was somewhat uneven at this time, franchising is rapidly becoming a global phenomenon. The overall business climate for franchising was seen as improving, which will make it increasingly likely that local franchisors will expand their franchised systems abroad.

An important question included in the above survey instrument asked the responding Associations to indicate the most important ethical practice/belief (e.g., code of ethics) which international franchisors conducting business in their country needed to be aware of. Switzerland responded that it is key that the franchisor be committed to fulfilling its contractual responsibilities and that they be honest and maintain a positive attitude. Argentina, Australia and New Zealand, Canada, European countries, Japan, Hong Kong, Mexico, and Southern Africa all sent us copies of their Associations' code of ethics. Franchise associations in Europe and the United Kingdom adopted the European Franchise Federations's (E.F.F.) Code of Ethics in 1989. E.F.F. association members include Austria, Belgium, Czech Republic, Denmark, Germany, France, Hungary, Italy, the Netherlands, Portugal, Sweden, and the United Kingdom. In addition to the above codes, which cover some 20 countries, the codes of ethics covering United States (members of I.F.A.) was obtained and added to the data set. Table I provides descriptive statistics of franchising in each of the 9 countries/regions sampled. U.S.A. and Europe have the largest number of franchisors. The average size of franchise systems ranges from 23 to 245 units with Japan and the U.S. systems having the largest systems. Franchising in these regions is growing predominantly in the retail, restaurant, and business/personal service sectors.

“Place Table I about here”

Analysis: We explored the content of the codes using the following research questions to guide the analysis.

1. To what extent do the various codes reflect the stages of the franchise relationship?
2. To what extent do the codes address the responsibilities and interests of individual stakeholders?
3. What type and degree of ethical content exist in the codes?
4. What type of enforcement procedures are evident in the codes?

Throughout the content analysis, we sought to examine the pattern of similarity as well as the differences in coverage among the various national codes. The specific analyses conducted are discussed with their respective results.

Code Content Analysis of the Franchise Relationship

The franchise relationship can be broken down into four relatively distinct stages; initial or franchisee recruitment; establishing a written agreement; ongoing implementation of the franchised system; and either renewal or termination of a franchisee's contract. These specific stages have been identified by the U.S. Federal Trade Commission in their regulations (i.e., Franchise Rule 436) governing specific disclosures franchisors are required to make to franchisees. Justis and Judd (1989: Chap 4) discuss in detail how the written contract agreement, ongoing franchisor obligations (implementation), and renewal/termination requirements are key elements of the offering circular to be disclosed. However, ethical code statements relating to these stages of the franchise relationship in the U.S. are clearly designed to impose a moral imperative on the franchisor that goes beyond these legal requirements. These stages in the franchise relationship appear to be relevant in other nations for both the methods of franchising (Hoffman and Preble, 1993) and its regulation have been extensively borrowed from the U.S. experience (Königsberg, 1996).

Perhaps the best way of describing each stage in the relationship is to draw from ethics code statements in our data set. An example of a code statement relating to the initial stage of franchising is, "No member shall offer, sell or promote the sale of any franchise, product or service by means of any explicit or implied representation which is likely to have a tendency to deceive or mislead prospective purchasers of such franchise, product or service." The following statement is related to the next stage of franchising, "All matters material to the franchise relationship shall be contained in one or more written agreement, which shall clearly set forth the terms of the relationship and respective rights and obligations of the parties." An example of the implementation stage is, "The franchisor shall seek to ensure that the

franchisee makes a reasonable profit by making continuous efforts to improve the product or service through research and development and developing management know-how, and make the results of these endeavors available to franchisees." The final stage of franchising would be reflected in the following statement, "A franchise agreement may only be terminated for good cause, which includes the failure of a franchisee to comply with any lawful requirement of the franchise agreement."

The extent of discussion contained in the code statements relating to each stage of franchising were classified using categories described by Matthews (1987). These discussion categories range from not discussed, to discussed (mentioned in at least one statement), to discussed in detail (several statements), and finally, to emphasized (a major section of the code is devoted to this stage). The analysis of emphasis did not focus on either forcefulness of presentation or explicitness of language, but rather on the proportion of the code devoted to that stage of franchising.

"Place Table II about here"

The overall results of this analysis are displayed in Table II and reveal that all but two codes encompass the four phases of franchising in their statements. The codes from Argentina and Mexico did not discuss the renewal and termination stage. The European Code devoted the most coverage to all stages of franchising, followed closely by codes of the United States, then Canada, Hong Kong and Southern Africa. The extensive European coverage may be due to the fact that franchisors from several diverse and varied legal orientations must adhere to this code. The U. S. (I.F.A.) code was recently updated and renamed in 1994 to the Code of Principles and Standards of Conduct to reflect the inclusion of operating principles and standards in addition to ethical principles. The Mexican code contained the least coverage of franchising's stages perhaps because its franchising industry is still in the early development stage, and the need for more detail has not yet become necessary.

In general, the codes placed greater emphasis on the initial and implementation stages and less emphasis on the written agreement and renewal/termination stages probably due to the greater complexity of potential ethical problems in the former two stages. Country codes (e.g., Argentina, Australia, Canada,

Hong Kong and Southern Africa) which placed the greatest emphasis on the initial stage tended to place the least emphasis on the agreement and renewal stages. The only exception was the European code. The reason for the lack of code emphasis may be that local contract laws are more explicit regarding both the nature of the agreement and the conditions for renewal/termination. In the latter case failure to abide by the contract can lead to termination. Additional research is needed to determine the specific reasons for the lack of code emphasis on these two stages. Nevertheless, perhaps these countries should add statements in their codes that address these two stages more explicitly.

In the next section we explain the extent to which various stakeholders are addressed by the international franchising codes.

Stakeholder Analysis of Codes

Increasing environmental change in recent decades has caused organizations to be more cognizant of and responsive to various parties or constituents having some claim on their resources. Freeman (1984:25) defines a stakeholder as, "Any group or individual who can affect or is affected by the achievement of the firm's objectives." Since franchise associations are concerned that franchising continue to flourish as a way of doing business, they often see their role as protectors and promoters of the interests of franchising's diverse constituents. This section examines the extent to which association ethical code statements are directed towards individual stakeholder responsibilities and interests. Table III summarizes the stakeholder analysis by country or region.

"Place Table III about here"

Before reviewing the data provided in the table, it is important to note that the classification of code statements by stakeholder was a somewhat difficult task. Often a code statement was ambiguous because it was unclear as to which stakeholder the statement was directed to or the statement was directed toward several unnamed parties. For example the U.S. code states that a franchisor shall not discriminate in the operations of the franchise system. Is this statement directed at potential franchisees only, or to any

employee or customer? Further, some code statements were directed primarily at one stakeholder, but indirectly to another or several others. The Japanese code of ethics included the following, “the franchisor shall comply with all applicable laws and regulations and shall not infringe on the rights of others [unspecified] or engage in activities... .” Due to the difficulties noted above, classifications were made on the number of times stakeholders were mentioned. With the above caveats in mind, the data in Table III should be viewed as representative of the stakeholder coverage of code statements.

The results of the stakeholder analysis reveal that the country/regional franchising codes address the responsibility/interest of an average of 6.7 distinct stakeholder groups. The range of stakeholders mentioned varied widely from 12 to 4. The codes addressing concerns of the most stakeholders were in the U.S. with 12 distinct groups referred to, followed closely by Southern Africa with 10 stakeholders and then Canada with 8 stakeholders mentioned. The U.S. code was developed and recently revised with the input of a broad group of constituents; it is one of the most comprehensive codes we examined. Therefore, it is not surprising that so many stakeholders were represented in its code. It is less clear why the Canadian and Southern African codes had so many stakeholders represented in their codes. Next, we examined the extent to which the responsibilities/needs of the specific stakeholders are addressed by the codes.

The data in Table III clearly indicate that franchisors are the primary stakeholder and focus of franchise association codes whether in the Americas, Europe, or Asia with an average of 16.6 mentions or an average of 50% of the stakeholder mentions in each code. This is logical since franchise associations accredit their primary members (franchisors) on multiple criteria, including adherence with both the letter and spirit of their Code of Ethics. Consequently, the responsibility of managing relationships with stakeholders falls primarily on the franchisor who is at the focal or central position in the franchise network and its numerous linkages (Hoffman and Preble, 1991). In promoting good (ethical) franchising these associations are equally concerned that franchisees are fully informed as to their responsibilities and as to the standards and norms of behavior expected by the franchising industry in their region. Franchisees received an average of 25% of the stakeholder mentions in each code. The number of code statements

relating to franchisees in Table III is supportive of this relative emphasis (average of 8.4 mentions). The responsibilities/interests of affiliates (consultants) was the third most frequently mentioned (average of 5.3 mentions) stakeholder group in the country franchising codes. Affiliates (consultants) who work in the franchising industry, such as lawyers, accountants, bankers, franchise management experts, etc., are either referred to several times (an average of 17% of stakeholder mentions per code) in a majority of the association codes or in a separate section of each code which is written specifically to address affiliate responsibilities (e.g., Argentina, Australia, and Hong Kong). These sections tend to focus on assuring that these specialists are fully qualified in their discipline; maintain client confidentiality of business information; and be impartial and objective in their advice/judgements. Franchise consultants who become association members are bound by their respective codes and may be officially accredited by their association to practice franchise consultancy in the region.

It is also interesting to note that the franchise association itself is mentioned as a stakeholder in 5 of the 9 codes (receiving an average of 6% of stakeholder mentions in these codes). One of the major themes expressed in the codes concerning this stakeholder group was that association members and the actions of the association itself do nothing to harm the reputation of the respective association.

Several associations (i.e., Canada, Hong Kong, South Africa, and U.S.A.) are explicit in terms of their responsibilities towards minorities, women, and disabled or disadvantaged persons being considered for employment as a franchisee or working anywhere in the franchise system. Employees were addressed in the codes almost exclusively with regard to anti-discrimination. It appears that the countries whose franchising codes contain an employee discrimination statement have either a sizable multiethnic population or vocal minority groups.

Fair business practices to safeguard the public interest were addressed by over 40% of the franchise codes. The remaining stakeholder groups were addressed in three or fewer codes. Stakeholder interests that are noticeably absent from a majority of the codes include customers (3 codes), suppliers and government (2 codes each). The interests of all three of these stakeholders are addressed in both the

Southern Africa and United States codes; in addition, the Japanese codes also mentioned customer interests. Other stakeholders mentioned (# of codes) reflect the specific structure of franchising systems and included: franchisee advisory councils (3), franchisee associations(2), and master franchisees (1). Advisory councils and associations are often an indication of the growing power of franchisees in more mature systems found in Australia, Canada and the United States. Arbitrators/mediators are frequently used as a final step of the franchise association's code enforcement practices; whereas, master franchisees have been granted the right to act as minifranchisors in a given geographic area. Finally, the other stakeholders mentioned in the ethics codes included trade associations (Argentina, Mexico) and competitors (Japan).

Despite the relatively broad number of stakeholders mentioned in the franchising codes of ethics, the codes place the most emphasis on a fairly narrow group of stakeholders. The stakeholders averaging more than two mentions in the codes include franchisors, franchisees, affiliated consultants, and the franchise associations. These stakeholders also received the highest proportion of mentions in each code. These are all directly or indirectly association members and have the strongest economic stake in franchising activity in their respective country. This emphasis most likely reflects that the primary purpose of the codes of ethics is to provide guidance and rules for the members directly participating in franchising. In this regard, the codes across all nine countries/regions reveal a similar pragmatic approach. Next we examine the "ethical" content of the franchising codes of ethics.

Ethical Content of Codes

In an effort to assess the ethical content of the codes used in our study, we first examined the codes to determine key ethical policy areas found in them. Ethical policy areas focus on what is the right/honest/socially responsible position or action to take (Cressey & Moore, 1983) in a given situation or issue. Once the policy areas were identified, we were able to evaluate each code to see if it contained a statement relating to each area. This made it possible to determine frequencies, percentages, and

ultimately a relative ranking of code items based on these findings. The results of these procedures are displayed in Table IV.

"Place Table IV about here"

A total of 13 ethical policy areas were identified across all of the international codes examined. Each ethical policy/issue was mentioned by an average of 5.5 codes (range 1-8). Three ethical policies were mentioned in all but one code and were tied for number one ranking based on frequency of appearance. The first of these is "exercising good faith and fair behavior in all dealings," which appeared in all but the Canadian code. The U. S. code defines good faith and fair behavior as dealing honestly, ethically, and with mutual respect, in accordance with the terms of their franchise agreements. Also mentioned by about ninety percent of the codes was "providing full and accurate disclosure" at the initial stage of the franchising process and "providing notice and due process" in case of franchisor-franchisee conflicts or noncompliance with contractual arrangements. Only the Mexican codes did not contain these two principles.

Ranked second in terms of frequency of appearance were code concerns about "maintaining the integrity and reputation of the franchising system or concept" (except Canada and Japan) and "compliance with applicable laws," (excluding Mexico and South Africa). Although legal compliance is not a sufficient condition for ethical behavior, it is a necessary first step. Two-thirds of the codes emphasized avoiding deception through "false or misleading advertising" and "fairness in all franchisor-franchisee dealings" (ranked third). The former was mentioned by codes of all regions except Canada, Mexico, and the U.S.A. and was mostly directed towards advertising of the franchise to potential franchisees. The fairness policy was omitted from the Argentinean and Mexican codes. Over half the codes emphasized the need to provide "open and effective communication" between the franchisor and franchisee (excluding Argentina, Europe, Japan and Mexico). This policy ranked 4th and is intended to serve a number of objectives. Fostering an open dialogue to exchange ideas, discuss areas of concern, increase cooperation

and understanding, and resolve disputes in good faith and goodwill are all expected outcomes of good communication.

Four issues were ranked fifth in terms of frequency of appearance. These issues included (codes mentioned): “provide a quality product or service” (Hong Kong, Japan, Mexico, U.S.A.), “do not divulge trade secrets or proprietary information” (Argentina, Australia/New Zealand, Europe, Hong Kong), practice “non-discrimination and affirmative action” (Canada, Hong Kong, Southern Africa, United States) and “safeguard the public interest” (Canada, Hong Kong, Southern Africa, United States). Lastly, the U.S. code provided a preamble and a set of general principles that established the overall tone for detailing a list of ten standards of conduct.

Given the coverage provided above with respect to a fair number of ethical policy areas, what is the extent of ethical theory and/or guidance provided by these codes? Previous researchers (Cressey & Moore, 1983; Molander, 1987) indicate that there may be difficulty in determining what is the proper subject matter of corporate codes of ethics. Our survey suggests several ethical themes to emphasize in franchise association codes. These include themes of good faith behavior, full disclosure, maintaining system integrity, avoiding deception, fairness, open communication, nondiscrimination, and safeguarding the public interest. While these themes appear common to a variety of organizational forms, about half are directed at characteristics unique to franchising. Unlike other types of business (e.g., corporate form as in the insurance industry), franchising grows by attracting other entrepreneurs to join the system and provide goods/services in their local market area. Thus, the franchising codes of ethics’ references to “full disclosure” and “avoiding deception” are themes directed at efforts to attract franchisees (invest/owners) not customers as similar ethical statements might in traditional corporate codes. “Maintaining system integrity” and “open communications” also reflect unique franchise characteristics. As a collection of entrepreneurs bound by legal but few administrative controls, franchise systems must build trust between franchisor and franchisees (Thorelli, 1986). These two themes appear to be designed to assist in trust building.

Our data also reveal that coverage of these ethical themes is quite variable among the codes of ethics examined. Based on the 13 ethical policy areas identified in this study, the franchising codes having a strong ethical orientation are those from Hong Kong and the United States, each of which contained 85% (11 of 13) coverage of these ethical policies. These are followed by Australia/New Zealand and Southern Africa, each containing 69% (9 of 13) coverage; Europe and Japan with 62% (8 of 13 each) each; Argentina and Canada, each with 54% (7 of 13) coverage; and, finally, Mexico with only 23% (3 of 13) coverage of ethical policies. Furthermore, a few of the ethical practices identified appear to reflect existing legal requirements in some of the nations as mentioned previously. Thus, the codes may reinforce rather than supplement laws in some areas especially those dealing with “full disclosure,” “avoiding deception,” and “discrimination” which have legal counterparts in North America, South Africa, and parts of Europe. This legalistic characteristic may help foster code enforcement, which is the topic of our final research question.

Code Enforcement Provisions

One of the purposes of codes of ethics is self-regulation (Frederick, 1991).. In order to perform this function, codes of ethics need to offer specific enforcement provisions. Previous research on corporate codes of ethics reveal the existence of such enforcement provisions (e.g., Cressey & Moore, 1983; Matthews, 1987; Lefebvre & Singh, 1992). Drawing on this research, we examined the international franchising codes of ethics to determine the extent and type of enforcement provisions in the following areas: member obligations, mechanisms or enforcement structure, and sanctions specified for violations.

"Place Table V about here"

All but one of the codes (Southern Africa) contained some enforcement provisions as indicated by Table V. At the very least, the codes containing such provisions cited member obligations to abide by the code. Although abiding by the codes, is not a formal enforcement mechanism, it represents a form of self-enforcement which is in keeping with the purpose of codes of ethics to serve as a means of

self-regulation. This obligation is extended to affiliate members (e.g., consultants/lawyers) in the codes of Australia/New Zealand and Mexico and to master franchisees in the European code. Membership in most of the franchise associations is contingent upon following their codes of ethics. Since membership is valued, members feel obliged to comply. For example, the Australian Franchise Association grants a logo signifying compliance with their code to members. This “seal of approval” is an effective advertisement to prospective franchisees and customers regarding the franchisor’s business practices. Similarly, the British Franchise Association “accredits” U.K. franchisors using various criteria including abiding by the European Codes of Ethics. Thus, franchise members also have utilitarian reasons for abiding by codes of ethics. Recognizing that such an obligation may be insufficient to ensure ethical behavior, a few codes offer additional forms of enforcement.

Only one-third of the codes identified a structure or method for enforcing code provisions. In Hong Kong, enforcement is discussed for affiliate members only; the association interprets the code. In Mexico the mechanisms are more explicit. Written complaints are presented to the association’s ethics committee who then resolves the issue. In the U.S. it is the executive committee who interprets the code in instances of alleged violations, and its decisions are binding. The remaining codes are silent on enforcement mechanisms/structures.

Again, only one-third of the codes mentioned sanctions when violations occur. The Argentinean ethics code indicated that code violations are subject to sanctions, but the sanctions are not specified. The Mexican and U.S. codes identify three types of sanctions. The Mexican codes stipulate that sanctions include: admonishment, temporary suspension, and expulsion; whereas, the U. S. code calls for suspension, termination of membership in the association, or other appropriate actions (unspecified) for the members who violate the code.

Overall, only the Mexican and U.S. codes contain the complete range of enforcement provisions from member obligations to enforcement mechanisms and sanctions. The Argentinean and Hong Kong codes each contain two of the three types of enforcement provisions while the code of Southern Africa

contains no enforcement provisions. Forty-four percent of the codes (Australia/New Zealand, Canada, Europe and Japan) stipulate only one enforcement provision having to do with member obligations to abide by the code.

The preceding analysis reveals that enforcement provisions in franchising association ethics codes are, to a large degree, under specified. Ideally, indicating at the outset the enforcement agency, judicial process, and penalty scheme (Molander, 1987) would lead to more predictable enforcement. This is particularly true if the purpose of the code is regulatory, i.e., includes detailed rules to govern professional conduct and to serve as a basis for adjudicating grievances (Frankel, 1989). Only the U.S. and Mexican codes provide provisions relating to this objective, despite the fact that all the codes appear to be somewhat rule based.

Summary and Conclusion

The major contributions of this study to the literature are that it represents the first known analyses of international codes of ethics of the franchising sector. It is one of the few such studies conducted at the level of a trade association. Consequently, this study has the potential to solidify a stream of research within applied business ethics with respect to ethical practices beyond the firm level of analysis. It provides a first look at the nature of franchising codes of ethics around the globe and insights into their purpose. The results also contribute ideas for practice. These contributions are discussed in more detail below.

The overall results of this study can best be summarized in terms of responses to our original research questions. To what extent do the country/regional franchise codes of ethics reflect different aspects of the franchise relationship? Generally, the franchise relationship is well covered by the codes examined. Over 75% of the codes discuss the four stages of initiation, written agreement, implementation and termination of franchises. We believe this to be one of the first empirical validations of the FTC's categorization of the franchisor-franchisee relationship. However, the emphasis of the codes is on the two

more complex stages of initiation and implementation suggesting that these two stages may pose the greatest number of ethical dilemmas for those engaged in franchising.

To what extent do the codes address the responsibilities of individual stakeholders? The primary emphasis of the codes is on a narrow set of stakeholders directly involved in the franchise system: franchisors, franchisees, consultants, and employees. This seems to reflect the practical approach taken by the codes to provide guidance to members of franchise associations. However, there is a wide variation in the number of stakeholders mentioned in each code. The codes of Canada, Southern Africa and the United States address the widest number of stakeholders. There may be some cultural explanations for this finding as discussed subsequently.

What type and degree of ethical content exists in the codes? Thirteen ethical policies/issues were identified among the codes, although there was considerable variation in coverage of these issues. On average, only half of these ethical policies appear in any given code. Several ethical policies are directed at matters unique to franchising such as attracting new franchisees and developing practices to build trust within a system of independent entrepreneurs. A couple of the most frequently cited policies, such as “complying with laws” and “false/misleading advertising” act only to reinforce the ethical obligation to obey the law and, therefore, from an ethical perspective, cover no new actions/behaviors.

What type of enforcement procedures are evident in the codes? Enforcement of the codes was generally under specified. The predominant enforcement provision is the statement pertaining to, “obligations of members to abide by the code.” Only the Mexican and U.S. codes provide a fairly complete set of other type of enforcement provisions. The lack of specific enforcement procedures may weaken the regulatory role of the codes which appears to be their primary purpose as discussed below.

Previously, we noted that codes of ethics have three purposes, according to Frankel (1989). Codes are aspirational—they provide ideals to strive for, educational, and regulatory. In general, the ethical codes examined appear to serve some aspirational goals and regulatory purposes, but are low on educational objectives. The ethical policies identified in the codes indicate aspirational content: good faith/fair behavior

in dealings, maintain integrity, fairness between franchisor and franchisee, practice nondiscrimination, and safeguard the public interest. The first three of these ranked among the top three most frequently mentioned ethical policies. Codes of ethics are also educational or help clarify expectations and offer means for resolving dilemmas. The country/regional codes examined here appear to be weak in educational content. “Provide open communications” and “quality product or service” were two ethical policies which helped clarify expectations. However, they were mentioned less frequently than the aspirational or regulatory policies. In performing their regulatory functions, codes provide rules for professional conduct and prescribe grievance procedures. The country/regional codes seem to emphasize this purpose. Forty-four percent of the ethical policies are directed to professional conduct—“full disclosure,” “comply with laws,” “no false/misleading advertising,” and “do not divulge trade secrets.” One ethical policy and all of the enforcement provisions are directed toward prescribing grievance procedures. The ethical policy is directed towards “providing notice and process for disputes” between franchisors and franchisees; whereas, the enforcement provisions are concerned with member violations of the codes themselves. These international codes appear to emphasize a regulatory purpose over both the aspirational and educational purposes.

The discussion thus far has concentrated on common themes/similarities among the codes, but, as noted in the analysis, there were considerable variations among the codes. The results of this study also suggest that culture may be an important variable in explaining some of the differences observed among the codes and as such should be considered an important factor in future research on codes of ethics at the trade association level. The eight countries in our sample reflect four different cultural groups, while the European region is multicultural. According to work by Ronen and Shenkar (1985), the four cultures include: Anglo (Australia/New Zealand, Canada, Southern Africa, and United States), Latin American (Argentina and Mexico), Far Eastern (Hong Kong), and Japanese. Each culture shares different values, some of which have been found to be related to different business/management practices (Hofstede, 1991). For example, the codes from the Anglo culture mentioned the highest average number of stakeholders

compared to the other countries/regions. The Anglo culture is the lowest on power distance or social stratification compared to the other cultures implying a greater equality among groups within their societies; hence, their willingness to take more groups in society (e.g., stakeholders) into account. The codes from Latin American cultures cited more enforcement provisions (avg. 2.5) than the codes from the Anglo cultures (1.67), Japan (1) and Europe (1). The Latin American culture is the only one of the four cultures in this sample that is high both in power distance and uncertainty avoidance (low tolerance for ambiguity). High power distance cultures usually have less trust in others and tend to emphasize specific sanctions. In addition, high uncertainty avoidance often leads cultures to devise rules and regulations to create certainty. It appears that the strong combination of both of these values in this culture is reflected in the strong emphasis they place on enforcement provisions in their ethics codes.

On average, it appears that the Latin American countries in our sample placed less emphasis on incorporating the different stages of franchising in their codes. These two nations are middle income nations (World Bank, 1994). The only other middle income nation in our sample is Southern Africa; however, its participation in the Commonwealth nations may have facilitated the more rapid transfer of business and franchising knowledge in that country. Until recently, the economic affluence required for successful growth and development of franchising have developed slowly in Latin America. Thus, compared to the other nations and regions sampled, which are all high income economies, Latin America has less franchising experience. This inexperience may be reflected in codes of ethics that lack specificity.

A study such as this is not without its limitations. First of all, the number of codes/countries sampled is rather small. However, the codes examined here incorporate the major franchising markets in the world, Europe, North America, and Japan. Moreover, excluding Europe, only 12 other nations are known to have a sufficient franchising industry to form a trade association. Our sample consists of 8 or 67% of these nations. A second limitation is that the qualitative data in the codes provide for only coarse grained classification as a means of measurement. This limitation is mitigated by the exploratory nature of this study, which does not demand the finer grain measurement required in hypothesis testing. Moreover,

the classification procedures were guided by prior research on codes of ethics to ensure consistency and some validity to the analysis.

Implications

Limitations notwithstanding, the results of this study do have implications for practice and further research. Franchising associations might want to examine their codes in the light of the common themes found in the majority of these codes and revise them accordingly in order to make them more universal. It might be appealing to international franchise firms expanding into a new country to have codes of ethics similar to their home or other host markets. Franchisors thinking of expanding into the regions surveyed now have a better idea of the codes of conduct expected in these different nations/regions. Our results reveal that the countries whose codes are most explicit in the contents we examined include Hong Kong, Southern Africa, and the United States. The codes that are least explicit are those from Argentina and Japan. Franchisors, franchisees, and consultants should find this information useful, especially if they seek to operate in regions where acceptable industry behavior is clear/explicit. Franchisors and franchisees who expand beyond their national borders might examine whether the regions' codes of ethics include the following common ethical policies found in this study: good faith behavior, full disclosure, maintain system integrity, avoid deception, fairness, and open communication. In this way they can gauge the extent to which certain ethical behaviors they may enjoy at home are also expected in an international market. Finally, franchising advisors should be aware that certain nations expect them to register with their franchise association and abide by the same rules as other members. The codes of Australia/New Zealand, Hong Kong, and Mexico have such code provisions.

Regarding future research, this study suggests that a useful extension to this research examine both global as well as local trends in international franchise codes of ethics. Determining which of these trends is the most salient would be a good avenue for research. Our data suggests that the local trends may be due to cultural and economic differences among nations. Again, teasing out the influence of such factors would

help better explain the differences observed. The extent to which codes of ethics actually affect the laws and behaviors of franchise stakeholders in various countries would also provide useful information for the industry as well as those interested in codes of ethics.

Finally, another research implication of this study is that research on international franchising is both fruitful and needed. Research on franchising using international samples is almost nonexistent. The results of this fairly specific study suggests that research using larger international samples and finer-grained variable measures would produce information that should be both enlightening and useful. For example obtaining additional data on code genesis, enforcement, and mechanisms used to enforce the codes could provide insights as to the best way to develop and enforce codes of ethics in franchising associations around the globe.

TABLE 1
Franchising Characteristics in Selected Countries/Regions

Country/Region	No. Of Franchisors (% of business format)	Avg. System Size (Avg. # of Units)	Major Growth Industries
Argentina	70 (90%)	43	Fast Food Retail Clothing
Australia/ New Zealand	555 95%	47	Food Service Retail
Canada	1100 (N/A)	23	Retail Recreation/ entertainment
<u>European Region*</u>	3264 (85%)	47	Retail Services
-France	500 (40%)	54	Services Hotels
-Germany	500 (N/A)	39	Retail Services
-United Kingdom	132 (N/A)	141	Services Fast Food
Hong Kong	31 (99%)	32	Restaurants Retail
Japan	703 (100%)	187	Convenience stores Food Service
Mexico	160 (75%)	57	Laundry Real Estate
Southern Africa	173 (66%)	52	Business Services Leisure Services
United States	2050 (95%)	245	Children Services Entertainment/ recreation

* Estimates based on data of 8 of 12 countries subscribing to European Code

TABLE II
Stages in the Franchise Relationship Appearing in the Codes

	Initial	Written Agreement	Implementation	Renewal/ Termination	Avg. Emphasis By Code
Country/Region	Extent of discussion				
Argentina	4 ^a	2	3	1	2.5
Australia/New Zealand	4	2	3	2	2.8
Canada	4	2	4	2	3
European region	4	4	3	3	3.5
Hong Kong	4	2	4	2	3
Japan	3	2	4	2	2.8
Mexico	2	2	3	1	2
Southern Africa	4	2	4	2	3
United States	3	2	4	4	3.3
Average emphasis by stage	3.5	2.2	3.5	2.1	

^aScale: 4=Emphasized, 3= Discussed in detail, 2= Discussed, 1= Not discussed

TABLE III

Number of Code Statements Directed Toward Each Stakeholder

Stakeholder	Argentina	Australia/ New Zealand	Canada	European Region	Hong Kong	Japan	Mexico	Southern Africa	United States	Avg. No. Of Mentions ^a
Franchisors	12 (57%) ^b	14 (54%)	13 (42%)	26 (55%)	18 (37%)	14 (61%)	14 (47%)	18 (49%)	24 (49%)	16.6
Franchisee	2 (9%)	4 (15%)	11 (36%)	18 (38%)	14 (29%)	5 (22%)	3 (10%)	9 (24%)	10 (20%)	8.4
Affiliates (Consultants)	6 (29%)	6 (23%)	1 (3%)	--	12 (24%)	--	5 (17%)	2 (5%)	--	5.3
Franchise Association	1 (5%)	--	--	--	2 (4%)	--	3 (10%)	1 (3%)	4 (8%)	2.2
Employees (Discrimination/ A.A.)	--	--	1 (3%)	--	1 (2%)	--	--	2 (5%)	2 (4%)	1.5
Public Interest	--	--	1 (3%)	--	--	1 (4%)	--	1 (3%)	1 (2%)	1

TABLE III -- Continued

Other ^c	--	2 (8%)	4 (13%)	3 (6%)	2 (4%)	3 (13%)	5 (17%)	4 (11%)	8 (16%)
Total No. of Distinct Stake- holders Mentioned	4	5	8	4	7	5	6	10	12

^a Average is based on codes actually mentioning the stakeholders, not on the total sample.

^b Within column percentage is based on no. of mentions for a specific type of stakeholder/total stakeholder mentions in a given country code.

^c Other stakeholders mentioned (# of codes): customers (3), arbitrators/mediators (3), franchisee advisory councils (3), franchisee associations (2), suppliers (2), government (2), trade associations (2), master franchisee (1), and competitors (1).

TABLE IV
Ethical Statements in Codes

Topic/Ethical Policy Area	Number of Codes Mentioning (N=9)	Percentage of Codes Mentioning	Area Ranking
Good faith/fair behavior in all dealings	8	89	1
Provide full and accurate disclosure of information when selling a franchise	8	89	1
Provide notice and process for disputes, terminations, or expirations of agreements	8	89	1
Maintain integrity and reputation of franchising concept/system	7	78	2
Comply with applicable laws	7	78	2
No false or misleading advertising (avoid deception)	6	67	3
Fairness in all dealings between franchisor and franchisee	6	67	3
Provide open and effective communication	5	56	4
Provide a quality product or service	4	44	5
Do not divulge trade secrets or proprietary information	4	44	5
Practice non-discrimination and affirmative action	4	44	5
Safeguard the public interest	4	44	5
General statement detailing ethical principles	1	11	6

TABLE V

Enforcement Provisions Contained in Franchising Codes of Ethics			
<u>Country/Region</u>	<u>Member Obligations</u>	<u>Enforcement Mechanism</u>	<u>Sanctions</u>
Argentina	Yes	No	Yes
Australia/New Zealand	Yes	No	No
Canada	Yes	No	No
European Region	Yes	No	No
Hong Kong	Yes	Yes	No
Japan	Yes	No	No
Mexico	Yes	Yes	Yes
Southern Africa	No	No	No
U.S.A.	Yes	Yes	Yes

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Biographical Sketches

John F. Preble is an Associate Professor of Business Administration at the University of Delaware. He received his Ph.D. in environmental analysis and policy from the University of Massachusetts. His research interests are in corporate strategy, international business, and related areas. Dr. Preble has published previously in the *Business Horizons*, *International Marketing Review*, *Journal of Business Ethics*, *Journal of Management Studies*, *Journal of Small Business Management*, *Long Range Planning*, *Strategic Management Journal*, and a number of other scholarly journals.

Richard C. Hoffman is an Associate Professor of Management in the Perdue School of Business at Salisbury State University. He received his Ph.D. from Indiana University. Dr. Hoffman's professional interests include strategic management and international business. His research in these fields has appeared in numerous publications including *Business Horizons*, *Decision Sciences*, *Journal of International Business Studies*, *Journal of Management*, *Long Range Planning*, and *Management International Review*.