

THE DISSEMINATION OF FRANCHISING ALL OVER THE WORLD: AN ATTEMPT TO ASSESS THE SCALE OF THE PHENOMENON

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Abstract

Nowadays, franchising is one of the fastest developing forms of business in the world. It is used in economic processes on all the inhabited continents of the Earth. Unfortunately, it is very difficult to assess the scale of this phenomenon. Assessment of the volume of franchising all over the world is made difficult mostly by the fact that none of the official international statistic institutions gathers data as regards the frequency of entering into franchising agreements. Information on the number of businesses in a given country or on a given continent is available, but enterprises operating on the basis of franchising agreements are not deduced from them. The purpose of the article is to specify the directions and scale of expansion of franchising all over the world. To do it, franchising related information was used, possessed by organizations which promote the idea of franchising in various countries. For this purpose, a few dozen of franchising associations were identified, representing 6 continents; each of these associations represents the franchising market of one country. As a result of direct interviews via e-mail or telephone, it was possible to obtain the basic data characterizing franchising markets of more than 70 countries. The data obtained concern, among others, such aspects as the number of franchising networks and establishments, as well as employment and turnover generated by franchising.

Key words: *franchising expansion, franchising agreement, franchising networks (chains), franchising establishments (units).*

Introduction

Franchising as a legal or marketing concept was not new, when its wide use commercially started to develop in late 1940s and 1950s (Mendelsohn, 2005). At the present time franchising is one of the fastest developing forms of business in the world. Accordance with the European Code of Ethics for Franchising “franchising is a system of marketing goods and/or services and/or technology, which is based upon a close and ongoing collaboration between legally and financially separate and independent undertakings, the Franchisor and its individual Franchisees, whereby the Franchisor grants its individual Franchisee the right, and imposes the obligation, to conduct a business in accordance with the Franchisor’s concept. The right entitles and compels the individual Franchisee, in exchange for a direct or indirect financial consideration, to use the Franchisor’s trade name, and/or trade mark and/or service mark, know-how, business and technical methods, procedural system, and other industrial and/or intellectual property rights, supported by continuing provision of commercial and technical assistance, within the framework and for the term of a written franchise agreement, concluded between parties for this purpose” (*European Code of Ethics for Franchising*, 2011). Two levels of people are involved in a franchise system: the franchisor, who lends his trademark or trade name and a business system; and the franchisee, who pays a royalty and often an initial fee for

the right to do business under the franchisor's name and system. So the franchisee is the owner of the franchise establishment (unit) and the franchisor is the organizer of the franchise network (chain). Franchising at its best is a partnership which establishes trust, opens communications, and accrues benefits to both the franchisor and its franchisees. Franchisee success means both growth and enhanced profitability for the franchisor (Perry, 1998).

Franchising plays an important role not only within internal markets of individual countries, but occupies more and more important position in international trade. In the opinion of the International Franchise Association (IFA) [1] "franchised businesses continue to grow in all corners of the world. Domestic franchisors in many countries are increasingly establishing franchises across borders. International franchising has been successful because consumers around the world recognize famous brands as symbols of quality, consistency, service, and value" (The International Franchise Association, 2011). In scientific publications in the field of economics and management, more and more space is devoted to the internationalization of that form of economic cooperation. In a stratification of forms of internationalisation of enterprises, franchising is classified among cooperative connections of the second degree of intensity (Wach, 2005). B. Pokorska (2003) points out that in strategies of international corporations, a trend of development of franchising networks can be clearly seen, not only because entrepreneurs choose the option of development through franchising or decide to transform their business into a franchise system after a few years on the market, but more and more often franchising is used as a remedy for recession and economic breakdown. Selection of the franchising formula allows the entrepreneur to combine his/her own development priorities with requirements of international markets and, first of all, it permits market expansion with relatively low capital investments [2]. Therefore, for many entrepreneurs, franchising became one of the key elements of their development strategy, which not only permits diversification of the product and service offered, but makes it significantly easier to enter market niches and makes it possible to acquire geographically new areas (Antonowicz, 2010).

The presence, during the last few years, in scientific literature and economic press, of numerous statements concerning an unusually dynamic international expansion of franchising with the simultaneous lack of global statistics which would confirm that proposition, have made the author of this article try to estimate the scale of that phenomenon. The basic objective of the research is to answer these three essential questions:

- 1) How wide is the expansion of franchising? Is it possible to talk about "worldwide franchising boom"? If so, has franchising actually encompassed all continents?
- 2) How many franchising agreements are entered into all over the world, i.e. what is the total number of operating franchising networks and establishments in the global scale and per a continent?
- 3) What employment and income does franchising generate?

Methodology of Research

Difficulties in the Assessment of the Scale of the Phenomenon

Assessment of the scale on which the franchising formula is used all over the world is a complicated task. It is made difficult mostly by the fact that none of the official international statistical institutions gathers data as regards the frequency of entering into franchising agreements in the world or within a continent or country. General information on the number of businesses in a given country or on a given continent is available, but enterprises operating on the basis of franchising agreements are not deduced from them, as nobody is counting the number of franchising cooperation agreements that are entered into.

As a result, researchers who want to assess the scale of the franchising phenomenon in

a given area are forced to use franchising-related information possessed by organisations that promote the idea of franchising in individual countries. These institutions usually keep a record of franchising networks or are able to approximately estimate the number of entrepreneurs who operate on the basis of franchising agreements in the area subject to them. A vast majority of these organisations are associations or unions, the members of which are participants in franchise systems or entities cooperating with them and sometimes also scientific or research institutions. Among these associations, it is possible to find both official, state-supported organisations, comprising as many as several thousand members, and less official unions, gathering together only a few organisers of franchising systems. However, it should be pointed out that the manner of documenting phenomena within the field of franchising by those institutions is unfortunately not uniform, as a result of which information on franchise markets in individual countries vary both as regards its scope and level of detail. However, due to the lack of global studies mentioned earlier, reports prepared by the institutions in question are at this moment the only source of information on the development of franchising in individual countries. That source was also used for acquisition of data used for research, the findings of which will be discussed in this article.

The Manner in which Research was Conducted

In order to acquire data for research, the first step consisted in an attempt to identify as many country-wide institutions representing the franchising environment of individual countries as possible. As a result of efforts taken, it was possible to identify (name and contact data) as many as 71 franchising institutions (**list in the Appendix**), **each of which represents** the franchise market of a different country. It turned out that among the institutions identified are representatives of as many as 6 continents, which makes it possible to point out at the very beginning that franchising is already employed on all the inhabited continents of the world. As the sample, (71 countries) 20 European countries were used first, the franchising institutions of which are associated into the European Franchise Federation (EEF) [3]. The other group comprised 24 countries [4] from outside of Europe, associated into the World Franchise Council (WFC) [5]. The remaining 27 countries which were included into the sample, were countries in which there is an official, country-wide institution connected with the franchise market, but it is not associated into any of the supranational franchising organisations (such as the EEF or WFC).

The scope of the sample used for the research was forced by the availability of worldwide data concerning franchising. However, it does not mean that outside the 71 countries that were analysed, franchising is not present at all. There are countries in which franchising agreements are entered into, but no country-wide institution that would represent the franchising environment has been established yet. Due to the fact that there is no such institution, identification of such a country is very difficult and it is surely not possible to assess the number of entities operating within its area on the basis of franchising agreements. Apart from that, the lack of institution representing interests of participants in franchising agreements means that franchising is employed on a small scale in a given country, as a result of which, not taking such a country into account in the analysis should not affect the findings achieved to a significant extent [6].

Another step in the research consisted in contacting the identified franchising institutions in order to conduct a direct interview with them. The interview was conducted via telephone or e-mail. All institutions were asked to answer the same questions, concerning the development of franchising within the area subject to them. The most important questions included:

- 1) How many franchising networks and establishments operate in the country?
- 2) What employment does the franchising sector generate?
- 3) What income does the franchising sector generate?

As a result of numerous attempts to establish cooperation with the abovementioned associations, the author finally managed to obtain information characterizing the franchise markets of all 71 countries. For the research, the latest statistical data were used where possible, i.e. data from the years 2008-2010. However, it was very difficult to ensure a uniform time criterion for the analysis as the franchising organisations in individual countries prepare reports and statistical compilations at various time intervals. Some franchising institutions representing countries covered by the analysis conduct research concerning the number of franchising agreements every 3-5 years. Therefore, due to the fact that, in case of some countries, it was not possible to obtain data for the same moment in time for the entire sample, data for years preceding the 2008-2010 period were used for research, which are the latest statistical data available for these countries [7].

Results of Research

Number of Franchise Networks and Establishments

Analysis of aggregated data, characterising the franchise markets of 71 countries showed that within their area, 40,200 franchising networks existed, which used more than 3 million sales establishments. At the same time, the analysis showed that the number of franchise networks and establishments is different on different continents (Fig. 1).

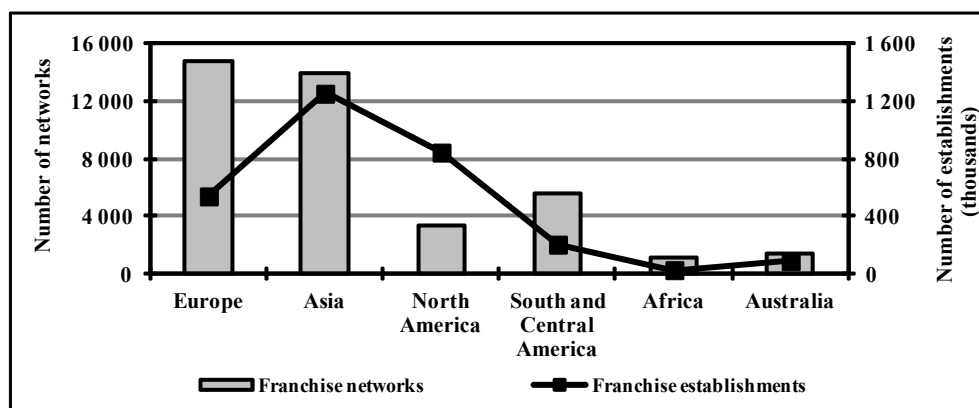


Figure 1: The number of franchise networks and establishments.

As regards the size of the franchise market, measured by the number of businesses that entered into franchising agreements, Europe and Asia are the leaders. The highest number of franchising networks (14,600) operates in Europe, and within their confines, 540,700 establishments operate. Asia in turn is the leader as regards the number of franchising establishments: in 13,900 registered networks operate as many as 1,300,000 establishments. South and Central America occupy the next place; in the period subject to analysis, 5,500 franchising networks operated, using 208,800 establishments. The next is North America where, in the period subject to analysis, 843,700 franchising units operated, associated into 3,400 franchising networks. Australia occupies the penultimate place, the franchising sector in Australia creates 1,400 networks and 93,500 franchising establishments. Definitely the lowest number of franchising agreements is entered into on the African continent, on which in that period there were only 1,200 franchising networks, which used 31,700 establishments.

Analysis of the figures shown in Fig. 1 reveals that the number of franchise networks operating on a given market does not directly translate into the number of franchising

establishments present in that area, which is confirmed by the situation in Europe and North America. Whereas in North America, within the confines of 3,400 networks operated, in the period subject to analysis, 843,700 franchising units; on the European market, on which the number of networks was four times higher (14,600), there were only 540,700 franchising establishments. It is the consequence of the average size of franchising network on an individual continent, measured by the number of establishments it includes. On average, in the period subject to analysis, the largest franchising networks operated in North America (on average 248,200 establishments per network), whereas the smallest ones were in Africa and Europe, where the average network operated on the basis of 26.2 and 36.9 franchising units, respectively. The average size of a franchise network for the entire sample of countries subject to analysis was at the level of 73.9 sales units.

An Attempt to Assess the „Degree of Saturation” of Individual Continents with Franchising

The comparative analysis conducted so far made it possible to rank the continents per the absolute number of businesses using franchising agreements. However, the potential of development of franchising in a given area may depend, to a certain extent, on the degree of saturation of the market with this form of economic activity. In order to determine the saturation in a simplified manner, data concerning the number of franchising networks and establishments were supplemented with information on the population size (Population Reference Bureau, 2011).

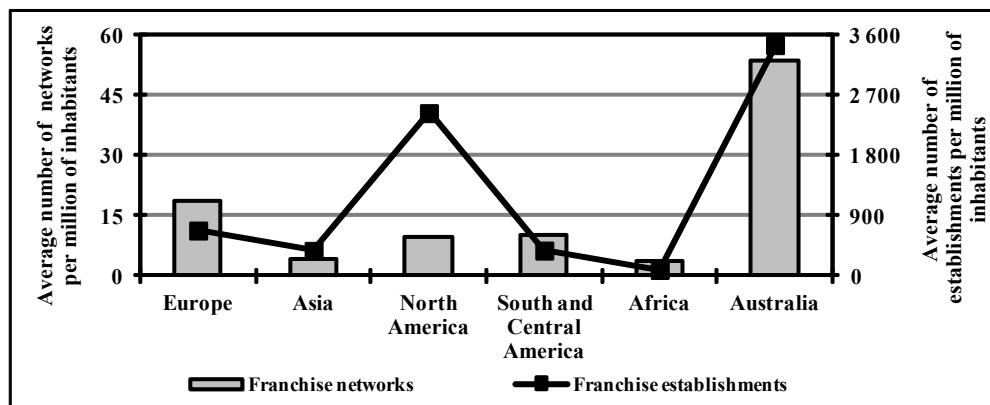


Figure 2: The number of franchise networks and establishments per million of inhabitants.

Analysis of the quotient of these values (Fig. 2) shows that, with reference to the population size, statistically the highest number of franchise networks and units operated, in the period subject to analysis, in Australia, in which per million of inhabitants were, on average, 53 franchising chains and 3,450 establishments. A relatively high number of franchising units per million of inhabitants also characterises North America (2,437 establishments). Potentially the most difficult access to businesses operating on the basis of franchising agreements had, in the period subject to analysis, the inhabitants of the African continent, where per million of inhabitants were only 4 networks and 97 franchising units. A relatively low level of the rates subject to analysis also characterises the Asian continent (383 establishments and 4 chains) and South and Central America (386 establishments and 10 chains). For the entire sample, the discussed rates were as follows: 560 establishments and 8 networks per million of inhabitants.

Summing it up, the analysis shows a very high degree of variation in the number of

franchising entities per million of citizens on individual continents, which indicates different degrees of development of franchise markets in various parts of the world. Areas characterized by a low degree of saturation surely have a large potential for the development of franchising, in particular for franchise networks interested in international expansion.

Employment and Income Generated by Franchising

Analysed also was the volume of employment and income generated by businesses cooperating on the basis of franchising agreements in various world areas. A research conducted in this field shown that in all the countries in question, franchising created, in the period subject to analysis, 25,400,000 jobs and generated income in the amount of USD 1,935,100,000 (Fig. 3).

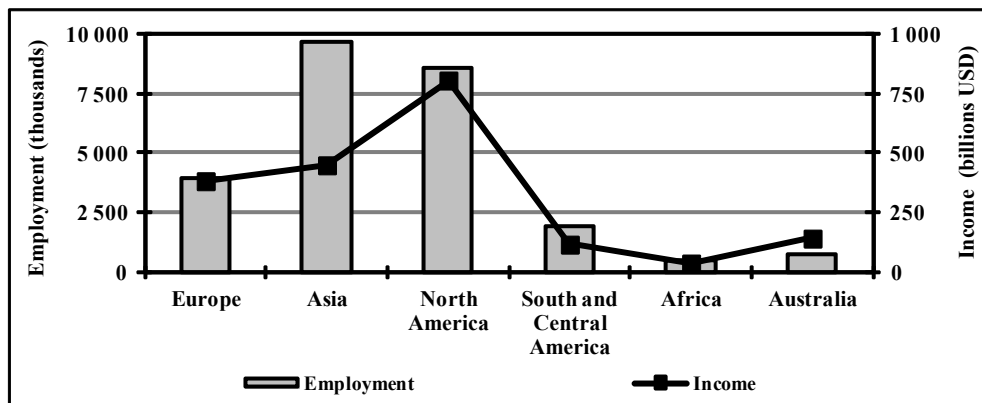


Figure 3: Employment and income generated by franchising.

As regards the continents subject to analysis, the highest level of employment in the field of franchising showed Asia (9,700,000 people) and North America (8,600,000 people) and the lowest: Africa (496,300 people) and Australia (770,400 people). Income generated by the franchising sector trends similarly to the employment: the highest value was recorded in North America (USD 806,600,000,000) and Asia (USD 450,000,000,000), and the lowest in Africa (USD 37,000,000,000) and South and Central America (USD 116,600,000,000). At the same time, it is visible that the level of generated employment and income is to a significant extent correlated with the number of franchise networks and establishments operating on a given continent.

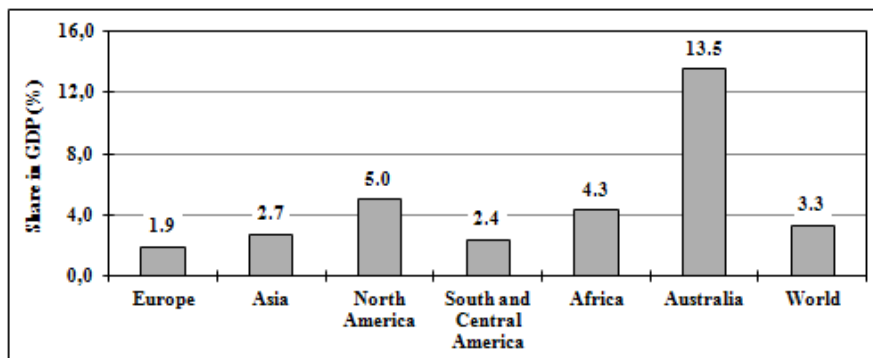


Figure 4: Share of income generated by franchising in the GDP.

In order to relativise the findings obtained and at the same time to illustrate the role which franchising plays in the economic system, quotient of the turnover generated by the franchising sector and the GDP (Word Bank, 2011) of the countries subject to analysis was used (Figure 4). The analysis that was carried out shown that the total income obtained by franchising networks and establishments in the period subject to analysis constituted from as little as 1.9% (Europe) to as much as 13.5% (Australia) of the total GDP of a continent. Only in the case of Australia, the analysed rate was a two-digit value.

At the same time one should notice a significant convergence between the obtained continent ranking and the ranking of saturation of franchise markets which was presented before. The share of franchising income of the entire sample was at the level of 3.3% of the global GDP, which permits drawing a conclusion that the importance of the franchising sector to the global economy is yet relatively low.

Conclusions

Research findings presented in the article show that franchising agreements are widely used around the world; it was possible to identify as many as 71 countries in which franchising is present. The world franchise market is comprised of 40,200 franchising networks and more than 3 million franchising establishments, which create 25,400,000 jobs and generate income in the amount of USD 1,935,000,000. Spatial grouping of the countries identified made it possible to conclude that the dynamic expansion of enterprises using the franchising formula, called as franchising boom, has covered all the inhabited continents: Europe, Asia, North America, South and Central America, Australia and Africa. However, visible is the various level of development of franchise markets on individual continents. The largest franchise markets are in Europe and Asia, whereas the highest level of saturation with franchising is in Australia. A simplified rate of saturation of continents with franchising, i.e. the quotient of the number of business employing franchising in their activities and the number of inhabitants of a given area, shows a significant convergence with the share of turnover generated by franchising in the total GDP of the continents. The level of employment and income generated by the franchising sector is in turn directly dependent on the number of enterprises that entered into franchising agreements in a given area, which is to a large extent a derivative of the degree of dissemination of the idea of franchising and the length of the period of use of franchising agreements in trade on a given continent.

Summing it up, the findings obtained permit drawing a conclusion that there still is a large potential of development for franchising in the world economy and differences in the degree of development of franchise markets on individual continents will gradually disappear with time. Comparison of the findings obtained with the findings of previous analyses (carried out by the author of this article in the years 2007-2008) confirm the opinion expressed in scientific literature and economic press that in recent years, an increasing interest has been evoked by Asia and South America among grantors of franchising licences. According to L.N. Swartz (Franchising Director working for Arthur Andersen Consulting) the „hottest” regions of the world are now Asia, South America and Africa. This opinion also is shared by B. Keddy (Director for International Affairs in the International Franchise Association), according to whom Asia and South America present the strongest potential for growth of franchising (Gowen, 2006).

Notes

- [1] International Franchise Association (IFA) was established in 1960 to build and maintain a favorable economic and regulatory climate for franchising. It is the only association serving as the voice for franchising in the United States and is a major participant in the international franchise arena.

IFA's mission is to enhance and to safeguard the business environment for franchising worldwide. IFA's membership and network encompass some 1,000 franchisors, 350 suppliers, and over 7,000 franchisee members (International Franchise Association, 2011).

- [2] According to French experts, franchising is the most flexible formula, allowing enterprises to perform both accommodative and developmental activities (*Franchise: une formule souple dans une économie en crise*, 2003).
- [3] European Franchise Federation was established in Belgium, in 1972. Its members are national franchising associations or federations from Europe. Tasks of the EFF include conducting research on various franchising-related issues, coordination of actions of its members, franchising promotion and in particular, protect interests of parties to franchising agreements (European Franchise Federation, 2011).
- [4] When the research was conducted, WFC comprised 44 countries, 20 of which represented the European continent and as such, they were qualified for the research due to the fact that they were members of the EFF, the remaining 24 countries were from outside of Europe.
- [5] World Franchise Council was established in France, in 1994, as a voluntary union of franchising associations. The overriding goal of the WFC is mutual support in the sphere of development of the institution of franchising on the native market and representing the common standpoint on the international arena. Tasks of the WFC also include propagation of information on franchising agreements and promotion of the idea of franchising all over the world (World Franchise Council, 2011).
- [6] The sample which was adopted covers nearly 80% of the whole population of Earth, measured by the number people living in the selected 71 countries in relation to the global population.
- [7] In the case of 76% countries subject to the research, data came from the years 2008-2010 and in the case of the remaining 24%, data were collected earlier, in the years 2003-2007.

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List of franchise associations

| No. | Country | Association | Web page | Member WFC | Member EFF |
|-----|--------------------|---|-----------------------------------|------------|------------|
| 1. | Argentina | Argentine Association of Franchising | www.aafranchising.com | YES | NO |
| 2. | Australia | Franchise Council of Australia | www.franchise.org.au | YES | NO |
| 3. | Austria | Austrian Franchise Association | www.franchise.at | YES | YES |
| 4. | Bangladesh | Bangladesh Franchise Association | - | NO | NO |
| 5. | Belgium | Belgian Franchise Association | www.fbf-bff.be | YES | YES |
| 6. | Brazil | Brazilian Franchise Association | www.abf.com.br | YES | NO |
| 7. | Bulgaria | Bulgarian Franchise Association | www.bulgariafranchise.com | NO | NO |
| 8. | Cameroon | Cameroon Franchise Association | - | NO | NO |
| 9. | Canada | Canadian Franchise Association | www.cfa.ca | YES | NO |
| 10. | Chile | Asociacion de Franchising de Chile | - | NO | NO |
| 11. | China | China Chain Store & Franchise Association | www.cdfa.org.cn | YES | NO |
| 12. | Colombia | Colombia Franchise Association | www.centercourt.com/acolfran | NO | NO |
| 13. | Costa Rica | Costa Rican Franchises Association | - | NO | NO |
| 14. | Croatia | Croatian Association for Franchising | www.fip.com.hr | YES | YES |
| 15. | Cyprus | Cyprus Franchising Association | www.cyprusfranchising.com | NO | NO |
| 16. | Czech Republic | Czech Franchise Association | www.czech-franchise.cz | YES | YES |
| 17. | Denmark | Danish Association of Franchising | www.dk-franchise.dk | YES | YES |
| 18. | Dominican Republic | Dominican Republic Franchise Association | - | NO | NO |
| 19. | Ecuador | Ecuador Franchise Association | www.aefran.org | YES | NO |
| 20. | Egypt | Egyptian Franchise Development Assoc. | www.efda.org.eg | YES | NO |
| 21. | Finland | Finnish Franchising Association | www.franchising.fi | YES | YES |
| 22. | France | Fédération française de la franchise | www.franchise-fff.com | YES | YES |
| 23. | Germany | German Franchise Association | www.franchiseverband.com | YES | YES |
| 24. | Great Britain | British Franchise Association | www.thebfa.org | YES | YES |
| 25. | Greece | Franchise Association of Greece | www.franchising.gr | YES | YES |
| 26. | Guatemala | Asociación Guatemalteca de Franquicias | www.guatefranquicias.com | NO | NO |
| 27. | Hong Kong | Hong-Kong Franchise Association | www.franchise.org.hk | YES | NO |
| 28. | Hungary | Hungarian Franchise Association | www.franchise.hu | YES | YES |
| 29. | Iceland | Icelandic Franchise Association | - | NO | NO |
| 30. | India | Franchising Association of India | www.fai.co.in | YES | NO |
| 31. | Indonesia | Indonesian Franchise Association | www.franchiseindonesia.org | YES | NO |
| 32. | Ireland | Irish Franchise Association | www.irishfranchiseassociation.com | NO | NO |
| 33. | Israel | Israel Franchise & Distribution Association | www.franchise.org.il | NO | NO |
| 34. | Italy | Italian Franchise Association | www.assofranchising.it | YES | YES |
| 35. | Japan | Japan Franchise Association | www.jfa-fc.or.jp | YES | NO |

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|-----|----------------------|--|---------------------------------|-----|-----|
| 36. | Kazakhstan | Association de franchise du Kazakhstan | - | YES | NO |
| 37. | Latvia | Baltic Franchising Association | www.franchising.lv | NO | NO |
| 38. | Lebanon | Franchise Development Services Lebanon | www.lfalebanon.com | YES | NO |
| 39. | Macedonia | Macedonian Franchise Association | - | NO | NO |
| 40. | Malaysia | Malaysian Franchise Association | www.mfa.org.my | YES | NO |
| 41. | Malta | Franchise Association of Malta | - | NO | NO |
| 42. | Marocco | Morocco Franchise Association | www.fmf.ma | YES | NO |
| 43. | Mexico | Mexican Franchise Association | www.franquiciasdemexico.org | YES | NO |
| 44. | Netherlands | Netherlands Franchise Association | www.nfv.nl | YES | YES |
| 45. | New Zealand | Franchise Association of New Zealand | www.franchiseassociation.org.nz | YES | NO |
| 46. | Nigeria | Franchise Development Assoc. of Nigeria | www.nigerianfranchise.org | NO | NO |
| 47. | Norway | Norwegian Franchise Association | - | NO | NO |
| 48. | Paraguay | Asociación Paraguaya de Franquicias | - | NO | NO |
| 49. | Peru | Peruvian Franchise Association | - | NO | NO |
| 50. | Philippines | Philippine Franchise Association | www.pfa.org.ph | YES | NO |
| 51. | Poland | Polish Franchise Organization | www.franczyza.org.pl | YES | YES |
| 52. | Portugal | Portuguese Association of Franchising | www.apfranchise.org | YES | YES |
| 53. | Romunia | Romanian Franchise Association | www.francizor.ro | NO | NO |
| 54. | Russia | Russian Franchise Association | www.rusfranch.ru | YES | NO |
| 55. | Serbia | Serbian Franchise Association | - | YES | YES |
| 56. | Singapore | Singapore Franchising and Licensing Assoc. | www.flasingapore.org | YES | NO |
| 57. | Slovakia | Slovenská Franchisingová Asociácia | www.sfa.sk | NO | NO |
| 58. | Slovenia | Slovenian Franchise Association | www.franchise-slovenia.net | YES | YES |
| 59. | South Africa | Franchise Association of South Africa | www.fasa.co.za | YES | NO |
| 60. | South Korea | South Korean Franchise Association | www.ikfa.or.kr | YES | NO |
| 61. | Spain | Spanish Association of Franchising | www.franquiciadores.com | NO | NO |
| 62. | Sweden | Swedish Association of Franchising | www.franchiseforeningen.se | YES | YES |
| 63. | Switzerland | Swiss Association of Franchising | www.franchiseverband.ch | YES | YES |
| 64. | Taiwan | Taiwan Chain Store and Franchise Assoc. | www.franchise.org.tw | YES | NO |
| 65. | Thailand | Thailand Franchise Association | www.thaifranchisecenter.com | NO | NO |
| 66. | Turkey | National Franchise Association of Turkey | www.ufrad.org.tr | YES | YES |
| 67. | Ukraine | Ukrainian Franchise Association | www.franchising.org.ua | NO | NO |
| 68. | United Arab Emirates | Franchise Development Services UAE | - | NO | NO |
| 69. | Uruguay | Uruguay Franchise Association | - | NO | NO |
| 70. | USA | International Franchise Association | www.franchise.org | YES | NO |
| 71. | Venezuela | Venezuela Franchise Association | - | NO | NO |

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