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Institutional Environments and the internationalization of franchise chains: the contrasting cases of North African countries

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ABSTRACT
Franchising has become a dominant model of retailing in the Western world and is also developing in emerging countries, with the internationalization of franchisors. The paper is an attempt at explaining the significant differences in the development of franchise between Morocco, Algeria and Tunisia. Explanations can be found in the general institutional environment in these countries (country risk, capital export control) as well as in the governments' willingness to modernize the distribution structures and the specific institutional environment of franchising: franchising law, the development of federations that serve to legitimize franchise partners with resource providers, banks and prospective franchisees. The analytical framework is that of institutional theory (DiMaggio and Powell, 1983) that provides new insight on approaches based on economic efficiency (agency theory and the resource scarcity perspective). From an analysis of the documents in the major public databases in the three countries, supplemented with field research, we propose an analysis grid of the institutional environment specific to franchising. Our analysis grid is used to explain the contrasting development of franchises in the North African countries. This development is also explained through the institutional theories renewing the approaches based on economic efficiency (agency theory and the resource scarcity perspective).

Keywords: Institutional environment, institutional theory, analysis grid, international expansion, Maghreb.
INTRODUCTION

La Vie Claire, Les Galeries Lafayette and la Fnac are some of the French brand names who recently announced the opening of outlets in Morocco, to be operated by franchisees who are local entrepreneurs (Libre-service Actualités -LSA- No. 2067, LSA web of February 5 and March 22, 2010, March 14, 2011). Morocco was the guest of honour in at the main franchise fair in France, Expo Paris Franchise, which took place in Paris in March 2010. Simultaneously and strikingly, other brand names are withdrawing from the Algerian market. After Carrefour, who closed down the hypermarket operated by Label’Vie in February 2009, just 2 years after signing the franchising contract, even though the agreement planned the opening of 18 hypermarkets by 2012. The Etam, Naf Naf and Celio brand names also put an end to their franchise experiment in Algeria (LSA No. 2079). Other franchisors, like the fast food brand Quick, have only 3 outlets in the country. Such a situation begs the question of what are the causes of such uneven development of franchises in countries that are considered to be close geographically, culturally, linguistically and economically.

In developed countries, franchising emerged as a dominant model in the distribution of products and services (Boulay and Chanut, 2010). Franchises associate by contract a franchisor (the owner of a brand name, a distinctive concept and solid know-how and tacit business practices) who wants a rapid duplication of outlets, and a franchisee, an independent trader, owner of a business, who joins a franchise chain in order to have access to a successful business system. The success of franchising is a reality in Western economies. For example, franchised chains represented in 2007 between 450 000 and 910 000 establishments in the USA, depending on sources, or between 7.9 and 11 million jobs in the U.S economy (Kosová and Lafontaine, 2011). France has 1569 franchise chains
and 62,041 franchised outlets (Fédération Française de la Franchise, 2012). So what about the development of franchise chains in Morocco, Algeria and Tunisia? To what extent does the institutional environment in these three countries have a bearing upon this development? Our purpose is to answer these questions with the help of institutional theory.

The situation is clear: in Morocco, franchises are quickly progressing, particularly spurred on by French franchisors, but is failing to take on in Algeria. Tunisia has experienced an intermediate situation due to a law passed on 12 August 2009, recognising franchise. This is an assessment from the official figures published by state agencies when they exist, other secondary sources, and from a field study carried out as part of a doctorate research by one of the authors (inventory of franchise chains in the Maghreb and interviews with the heads of the French brand name networks established there).

The choice of the Maghreb is justified by several factors. While several papers on franchises in emerging countries can be found in academic reviews (Welsh et al. for example, counted more than 30 between 1988 and 2005, 2006), we did not find any paper comparing the extension of franchises in the North African (Maghreb) countries\(^1\). Such factors should interest European franchisors looking for international growth, and particularly French franchisors. The international growth of France in the North African countries seems natural enough due to geographical, cultural and linguistic proximity and still active historical links with its former colonies.

\(^1\)A review has attempted to classify – through the development of an International Franchise Expansion Global Index – the most attractive host countries for a North American franchise chain, without focusing on the North African countries. The 3 countries of the Maghreb were classified as 51st (Morocco), 52nd (Tunisia) and 62nd (Algeria) in attractiveness for American chains (Aliouche and Schlentrich, 2011).
Our research approach is based on the hypothesis that the development of foreign, then local franchising in an emerging market depends on the institutional environment of the host country. The first part of the paper underlines the importance of an institutional environment (deliberate policies, legal rules, customs duties, infrastructures) in favour of franchisors to understand the development of franchise in emerging countries. We then describe the major differences in the development of franchises in the three countries of the Maghreb and explain them by the governments' varying determination to modernise trade and create institutional environments favourable to foreign investors in their countries, particularly franchisors.

THE INSTITUTIONAL ENVIRONMENT AS THE CORE EXPLANATION OF THE DEVELOPMENT OF FRANCHISING IN EMERGING COUNTRIES

The significant international development of franchise chains is not a phenomenon restricted to the Western world: the last ten years were the scene of a strong move toward the internationalization of franchising, spurred on by franchisors wishing to find new markets when faced with saturation in their home markets. While franchise chains have no real strategic approach in terms of foreign growth (Aliouche et al., 2012), two groups of factors seem to explain the choice of franchise for international development (Eroglu, 1992): organizational factors characterizing each franchise system (size, experience in the management of franchised outlets, level of tolerance regarding risk, awareness of possessing a really distinctive advantage, international orientation of the managing team) and environmental factors, external to firms. Among the factors in the second group are the elements associated with the environment of the network's domestic market (competitors' presence, market saturation, part played by banks, governments, chambers of commerce
and other institutional players), and the factors associated with the host market, particularly the way the political, economic and financial environment of the host country is viewed.

The issue of the influence of the institutional environment on the international strategies of companies is not new (Lawrence & Lorsch, 1969; Davis & North, 1970; North, 1990; Di Maggio & Powell, 1991; Powell, 1996; Oliver, 1997; Peng 2000 & 2002). The institutional framework is defined by Davis and North (1971) as the set of fundamental political, social and legal ground rules that establishes the basis for production, exchange and distribution. According to North (1990) institutions are the rules of the game in a society or more formally are the human devised constraints that shape human interaction. For Powell (1996), researchers should investigate the forms, motivations and circumstances of the taking into account of the institutional environment in firms' strategies. In this perspective, Combs et al., (2009) show how both environmental and internal institutional pressures influence firms' propensity to franchise, but that responsiveness to internal institutional pressures declines as economic reasons to franchise increase. Overall, social factors appear to actively influence franchising, but their impact is muted by economic factors. Aligned with these findings, Gauzente and Dumoulin (2012) suggest that this persistence of franchising the organization of retail networks can be explained by institutional theory and argue that institutional forces exert their influence at multiple levels. From this point of view, Peng (2002) formulated the question of the influence of institutions in the implementation of differentiated strategies from one country to another by a given firm, and demonstrates that strategic choices are the result of both formal and informal institutional constraints, conditions in the industrial environment and the firm's specific resources. These two factors combine with specific interaction dynamics between institutions and organisations.
THE FRANCHISE, A MODEL SUITED TO THE PENETRATION OF EMERGING MARKETS...

Academic research shows that emerging markets were a favoured target for international distribution networks, particularly because they concentrate 80% of the world population and 60% of natural resources and represent the largest long-term potential for business growth, and consequently for franchisors (Welsh et al., 2006). Distribution networks have developed in Central and Eastern Europe, in Mexico and Southern America, in Asia (Isa et al., 2012), and some African countries, including South Africa, Egypt, and since the 1990s, the Maghreb.

Emerging markets share a few characteristics explaining their attractiveness for distribution concepts: apart from their young populations, they experience high growth rates, have an already significant urbanization rate, a middle class eager to adopt western lifestyles and consumer habits is emerging and both the percentage of vehicle ownership and the quality of infrastructures are progressing (Isa et al., 2012).

There are different processes of international development: direct investment by creating directly owned and managed affiliates, joint-ventures materializing a partnership agreement with a local firm to develop the network together in the host country, area agreement with a local firm empowered with the right to develop the network in the host country, master-
franchise—an area agreement in which the local firm plays the part of franchisor, or direct franchise with the recruitment and management of local franchisees from the country of origin (Duniach-Smith K., 2003; Boulay and Chanut, 2010). While the selected methods do not seem to be determinant for the success of the project, the establishment methods that rely on local firms (area agreement, master-franchise, direct franchise) have significant advantages for franchisors, as they are able to rely on partners, franchisees or master-franchisees and firm managers, enjoying financial and managerial capacities and an initiative ability reflecting their status as final beneficiary: they keep the residual profit after paying the up-front fee and on-going royalties to the foreign franchisor, which, according to agency theory, is a source of effort and motivation (Jensen and Meckling, 1976; Fladmoe-Lindquist and Jacque, 1995; Stanworth et al., 2001). The partners are also present locally in the target territory and consequently embedded into the local social and business networks and enjoys an in-depth knowledge of the local market, of the values and habits of the local trade, of the economic and political structures of their country and area. Their social position is a source of legitimacy and contributes in accepting a distinctive, although foreign concept. Their relationship and close identity with local consumers contributes to the concept's notion of proximity (Capo and Chanut, 2012) and to a successful installation of the first stores, thanks to a possible adjustment of the original concept to local demand. Their knowledge of the institutional environment is particularly valued in countries where legal, bureaucratic, and customs constraints are uneasy to master by foreign players. While the literature has for a long time shown that networks resort to franchise for outlets geographically far from head offices (Brickley and Dark, 1987; Norton, 1988; Lafontaine, 1995; Bercovitz, 2001), cultural, linguistic or institutional distances are also motivations for choosing the franchise organizational mode when firms want to establish themselves in foreign countries.
The choice of host countries, for franchisors wishing to go international is based on several criteria. In addition to geographical and cultural distances (Aliouche and Schlentrich, 2011), economic criteria (development level, potential for growth) (Alon and Mckee, 1999), and market governance rules and the institutional environment (Welsh et al., 2006) are also taken into account, particularly to assess the level of risk associated with investment in host countries. Installation in a host country implies that this country offers an institutional environment compatible with the franchisors' interests.

**... PROVIDED THAT THE HOST COUNTRY OFFERS AN INSTITUTIONAL ENVIRONMENT COMPATIBLE WITH FRANCHISORS' INTERESTS**

While research on franchises was until recently fuelled with considerations on economic efficiency, through the agency theory or the resource scarcity perspective, other approaches seem to offer genuine explanations and have begun to be used (Barthelemy, 2011). This is the case of sociological explanations that emphasize that the choice of an organizational form depends on standards, values and rules coming from the institutional environment and on a desire to comply with a dominant model (DiMaggio and Powell, 1983). The players' rationality is then replaced by a mimetic rationality: for example, a shared belief that the franchise is an optimal organizational form for ensuring the development of the economic activity or the shared belief that the host country's institutional environment is favourable to franchising.

The institutional environment is a key factor for understanding whether a franchise chain is either set up or dismantled in a host country. It conditions the legitimacy of a franchise with partners supplying resources for the development of franchised outlets, with banks and
prospective franchisees particularly (Dumoulin and Gauzente, 2009; Barthelemy, 2011). Yang et al. (2012) showed that firms adapt their strategies to the varied institutional environments of host countries in order to gain legitimacy and efficiency by customizing contracts and following relationship governance.

To explain the differences in the development of franchise in the three countries of the Maghreb, the authors propose a reading grid of the institutional environment suitable for distribution networks in general and for franchisors' interests in particular. This reading grid is organized around three groups of criteria: those associated with the country risk and the social climate of the host country, those relating to the existence of modern business structures and those centred on laws and institutions favourable to franchising and the interests of foreign franchisors.

Table 1
Analysis Grid for the institutional environment of franchise

The first group of criteria first includes political stability, the democratization of political structures and the control of key resources by the public powers (Welsh et al., 2006). The second includes market governance rules and moves toward the liberalization of economic institutions: the varying degree of freedom of circulation of goods and funds, currency convertibility and regulations. These country risks are regularly assessed by the western institutions who classify countries according to levels of risks. The ICRG (International Country Risk Guide, created by ATKearney consulting) assesses for example the country risk of emerging markets for foreign investors, according to economic and
political risks and also as a function of trade factors (market saturation, relative growth of large stores, time aspects).

A key factor for franchisors is the possibility to export goods into the host country coupled with the possibility to cash in and repatriate up-front fees and royalties. In a franchise agreement, the franchisor can be considered as a service provider bringing marketing resources (brand name, communication on the brand name and a proven distinctive concept) as wedding presents, as well as know-how and permanent assistance to the franchisee. Franchisors generally receive compensation for this service in the form of up-front fees for joining the network and royalties on the turnover of the franchisee store network (master-franchise). It is important for franchisors to actually cash in this compensation, which is the case only in countries authorizing capital outflow. Although with product franchising, it is always possible to get around regulations preventing the repatriation of funds by fixing higher purchase prices for imported goods, the ban on transferring funds transfer to foreign countries is a bar for service franchising and may explain the low rate of development of franchise chains.

The second group of criteria relates to the starting up of modern trading structures due to the political desire by the authorities to modernize distribution structures. Apart from the already mentioned free circulation of goods and funds, this group focuses on the existence and the development of large and medium foodstuff stores alongside traditional trade structures, plus the quality of transport (roads) and store (warehouses) infrastructures which condition modern distribution and facilitate goods transport and delivery. A logistics performance index including the time required for customs clearance and the use of NTIC and modern management tools has been developed by the World
Bank. The authors also include in the group the existence, in host countries, of training for marketing jobs and manager positions which make it easier to recruit marketing supervisors, the development and monitoring of statistics on trade structures by the public powers and laws on commercial leases. The construction of modern trade structures implies a right to lease that protects the owners of commercial premises and ensures them enough operation time in their premises.

**The third group of selected criteria is centred on laws and institutions dedicated to franchising.** The first criterion there is the recognition of franchising as a possible organizational form for trade activities, and even a government belief that franchising plays a part in the modernization of trade and can be an asset for combatting the curse of counterfeiting and the black market. When a political will exists, laws are sometimes modified and specific laws to officially recognize franchises are passed, allowing this form of agreement to appear (that law-makers must make compatible with competition laws). In those economies most open to franchising, franchise laws are developed to protect partners and make sure of balanced relationships between franchisors and franchisees, imitating what exists in countries where franchising, as a marketing system, has reached maturity: obligation of pre-contractual information to protect the consent of franchisees², protection of the know-how of franchisors, adaptation of intellectual property rights and other measures to efficiently fight counterfeiting damaging to brands.

In addition to regulations, the creation of franchise associations and federations is part of the development of a favourable institutional environment. They are often the precursors of ethical codes helping to secure this organizational form. They generally see to the interests of the franchise players, promote this mode of organization with all parties: the authorities
of course, and also the banks who decide whether to facilitate access to credit for member firms of a franchise chain. They can also organize conferences, forums and other franchise events to bring together both national and foreign franchisors and prospective franchisees. Finally, they can organize training sessions for trade and franchise jobs. The analysis grid of the institutional environment of franchises in Table 1 helped us to explain the differences in franchising development in the three countries of the Maghreb.

SIGNIFICANT DISPARITY OF FRANCHISING DEVELOPMENT IN THE NORTH AFRICAN COUNTRIES EXPLAINED BY MORE OR LESS FAVOURABLE INSTITUTIONAL ENVIRONMENTS

The purpose of this chapter is to explain the differences in the development of franchise in the three countries of the Maghreb from the reading grid of the institutional environment of franchising presented above. We first observe that there is a large disparity of this development in the three countries, and we analyse these differences with the help of the institutional environment reading grid.

THE CURRENT SITUATION: A STRONG DEVELOPMENT OF FRANCHISING IN MOROCCO, A SLOW ONE IN ALGERIA, IN A TRANSITIONAL POSITION IN TUNISIA

While franchising is fast growing in Morocco, it has not taken off in Algeria. Tunisia is between the two (see Table 2).
MOROCCO'S MODEL DYNAMISM

It is easy to assess the situation of franchise chains in Morocco, due to the regular issue of statistics on franchise by the Moroccan Ministry of Commerce\textsuperscript{2}. There are about 440 franchise chains in Morocco and about 3200 franchised outlets, in various sectors of activity. Most networks are of foreign origin. 38\% of them are French brand names (see examples in Table 3), and this helps to confirm the idea developed in the literature that demonstrates that networks establish themselves in the nearest countries in terms of geography, language and culture (Aliouche and Schlentrich, 2011). The historical links between France and the North African countries explain these commercial links. But Moroccan franchise chains exist alongside foreign networks and already represent 15\% of the Moroccan networks (or 52 networks). Some, such as Marwa or Kiotori are even beginning to export their concepts to France and Europe. In addition, while 46\% of franchised outlets are located in the three largest cities (Casablanca, Rabat and Marrakesh), more than half are located in smaller towns, which means a significant spread of brand name franchisees in Morocco. We can say that franchising in Morocco is now a meaningful marketing system in the growing phase of its life cycle.

LAGGING ALGERIA

In this country, there are no statistics and this makes it difficult to carry out a detailed count. However, there are less than 30 franchise chains and less than 50 franchised outlets (Gharbi, 2012).

The foreign brand names established in Algeria hold 1 to 3 outlets, exclusively located in Algiers, in fashionable districts and targeting foreign customers and tourists. In addition, several networks have recently announced the closing down of their franchisee stores in Algeria. We can say that franchises as a marketing system have not been able to take off in this country.

**RISING TUNISIA**

Tunisia offers an intermediate situation. The country has recognized franchises only very recently (2009). As a consequence, partnerships between foreign networks and Tunisian firms to operate stores according to imported concepts were qualified as brand licenses, know-how or technical assistance agreements, or other formulations. But they existed and looked quite like franchise. The first store under this organizational form may go back to 1933 (agreement with Monoprix, who nowadays has 71 stores in Tunisia, LSA No. 2100). Other French brand names are significantly present in franchise\(^3\) in Tunisia, whose development started in the 1990s. This is the case of mass foodstuff distribution which modernized in Tunisia, with Carrefour, present since 2001 (45 outlets under the Champion, Carrefour Market, Carrefour Express brand names), and also Géant Casino (since 2005, 1 hypermarket). Système U announced the opening of a hypermarket in 2012, just before the Jasmine revolution. Two Tunisian brand names are thought to be operated as franchises, also in the food retailing sector: Elmazraa (532 stores out of which 350 operated as franchises) and Chahia (95 units with 63 in franchise) (Mseddi and Bouri, 2010). Several other sectors look promising for franchises: real estate and luxury products. But as in

\(^3\)Even if the agreements have other legal qualifications.
Algeria, the lack of statistics hampers the analysis of the actual development of franchises in Tunisia. We will satisfy ourselves with the words used by the general director of competition and economic control within the Ministry of Commerce who described Tunisia's experience with franchising as “modest and budding “. Which, according to him, does not prevent the existence of “a few successful franchise experiments under a few national or foreign brand names” (quoted by Mseedi and Bouri, 2010).

Table 2
Comparison of franchising development in the North African countries.

EXPLANATIONS TO BE FOUND IN POLICIES RESULTING IN REGULATORY, LOGISTICAL AND INFRASTRUCTURE PROVISIONS

Recalling our central hypothesis according to which foreign franchising, and then local franchising development in an emerging country depends on the institutional environment of franchise, the authors are proposing to explain the differences in this development in the three countries of the Maghreb through the reading grid of the institutional environment.

It has to be accepted that the causes of the differences in the installation of foreign franchise brand names are not to be found in the demographic or wealth potential of the three countries. While Tunisia has only 10 million inhabitants, Morocco and Algeria are comparable in terms of population. Tunisia has a higher urbanization rate, vehicle ownership rate and wealth index than Morocco (Table 3), but a much lower development of franchise chains.
Comparing the institutional environment of franchises in the three countries (Table 4 at the end of the paper) helps to confirm that this is where the causes of disparity in development lie. In terms of country risk, while Tunisia and Morocco, in terms of their Global Retail Development Index 2010 of AT Kearney Consulting, are ranked similarly way, with an advantage for Tunisia (respectively 11th and 15th place)\(^4\), Algeria is far behind (21st place), which means a significantly higher risk level for foreign investors than in its neighbours.

**MOROCCO : A DELIBERATE POLICY OF PROMOTING MODERN TRADE**

The success of foreign franchising is the result of laws and logistics conditions that favour franchisors' investments. Franchising is not the subject of a specific legal system in Morocco: partnership agreements are ruled under common law (trade laws, competition laws, labour laws, etc.). But franchising is recognized de facto and there are no regulations hampering its development. Specifically, foreign franchisors can repatriate their up-front fees and royalties. In terms of trade structures, the Moroccan government has adopted an ambitious development plan, expressing its desire to modernize the trade structures. The government's objectives are to augment trade from 11 to 17% of the GDP, to increase the number of large and medium area stores to 900, and thus to create 450 000 jobs. The market share of large-scale distribution already represents 10% of trade and should double by 2020. The logistics performance index is also progressing. As for franchise institutions, there again appears the clear desire to promote both foreign and national franchising. The

\(^4\) Note that the 2010 classification does not take into account the Arab spring revolution of 2011.
Moroccan franchise association created in 1997 became the Moroccan Franchise Federation in 2002. It is the only franchise association in the Maghreb to be a member of the World Franchise Council. It is very active. In particular, it has proposed a projected ethical code for franchises, very useful in the absence of laws protecting franchisees. Finally, two Moroccan banks have implemented specific offers to allow prospective franchisees to finance their premises and their membership of a franchise network. They grant a 7-year credit covering up to 70% of the investment programme (including fees and royalties) with an upper limit of 1 million dirhams. All in all, the institutional environment for franchises is favourable in Morocco and explains their strong development. The lack of laws protecting commercial leases is the only drawback: retailers have no long-term leases for their premises and this weakens them. This is probably why 18% of commercial premises are unoccupied in a city like Casablanca. The institutional environment for franchises has developed gradually in Morocco, in spite of no specific legal system. Policies are clearly in favour of the development of foreign franchises. They have allowed a strong growth of first foreign, than Moroccan franchise chains.

**ALGERIA: RESTRICTIVE POLICIES FOR FOREIGN INVESTMENTS**

It has to be accepted that there is no specific institutional environment for franchising in this country: no statistics on franchising, no legal recognition of the organizational form, there has been only one franchise association created in 2006, which has organized only 2 meetings since. The authorities have proved hostile to foreign franchisors, with a restrictive policy toward foreign investments: financing investments are only allowed in dinars (not convertible); funds transfers are strictly controlled: it is forbidden to pay royalties and to

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5 Or about 90 000 euros.
repatriate them. Other rules, such as the ban on consumer credit, do not favour trade. In addition, while several of the people interviewed\(^6\) described « a potential in Algeria, due to a high demand, greater than that in Morocco », they simultaneously underlined regulatory and customs difficulties hampering goods delivery: « the issue is how do our products reach our shops? Customs procedures are very difficult in Algeria, custom officers are particularly fussy and the circulation of goods circulation is complicated. Algeria is more difficult than Morocco, in spite of a higher potential ». and in fact, the logistics performance index is the lowest of the three countries\(^7\). However, while the authorities have not been much in favour of franchising up to now, it seems that a recent awareness of the profitable nature of franchising for the Algerian economy has justified the constitution of a commission to prepare laws on franchising. It would be in charge of making propositions to codify, organize, and control franchise trade activities.

**TUNISIA: A CAUTIOUS OPENING TO INTERNATIONAL TRADE AND FRANCHISE**

The country presents a development of franchising that is in discrepancy with a number of identified indicators such as its economic potential and level of country risk which are rather more favourable to foreign investors than those of its neighbours: the country has opened to international trade as its joining the WTO in 1994 shows; Tunisia already has modern trade structures, far more westernized than those of its neighbours (18% of retailing in large and medium area stores, and this figure could double in 10 years), thanks to partnerships with Foreign food retailing groups (Carrefour, Metro up to recently, among

\(^6\)Interviews conducted during Franchise Expo Paris, on March 22-23, 2010, with the Speedy, Carré Blanc, Geneviève Lethu and Réponse Lit band names managers.

\(^7\)Sources : www. donnees.banquemondiale.org/indicateur/LP.LPI.OVRL.XQ r, the global score of the logistics performance index reflects views on the logistics in a given country based on the efficiency of customs clearance processes, the quality of commercial infrastructures and transport infrastructures. It ranges from 1 = low, to 5 = high.
others); the logistics performance index is the best in the 3 countries of the Maghreb. But there are relatively few franchises in the country. It has to be has to recognised that franchising has met with major obstacles due to the prudent policy adopted by the Tunisian administration, prohibiting anticompetitive practices for this type of investment in relation to foreign brands and the impossibility for a Tunisian franchisee to pay royalties to a foreign franchisor (Mseddi and Bouri, 2010). McDonald’s and Pizza Hut for example could not establish themselves in Tunisia in the 1993-1995s as the Ministry of Commerce and Craftsmanship refused an authorization for McDonald and quickly withdrew its authorization to Pizza Hut (Mseddi and Bouri, 2010). These obstacles explain the low development of service franchising in particular, as it is not possible to disguise royalties with higher purchase prices in this case.

However, the future of franchises now seems promising in Tunisia with the change of climate and the change of attitude of the Tunisian authorities toward franchises at the beginning of 2009, translated into a Section 5 of the Law of August 12, 2009, on retailing. The government wishing to promote a modernization policy of its trade is counting on foreign distributors, under two conditions: that they create jobs and respect quotas of local products. In fact, Section 5 officially recognises franchise agreements and offers a definition of the agreement\(^8\) (close to the European definition), requires a written agreement stating the rights and obligations of franchisors and franchisees, mentions the principle of a prior obligation of information (but refers the definition of its contents to a decree of application). Section 5 also recognises explicitly the right to pay royalties, and to transfer them abroad, under the control of the central bank and after authorization by the Ministry of

\(^8\)The definition pertains to the franchise agreement, unlike the definition in the European franchise ethics code pertaining to franchise as a marketing system: « The franchise agreement is an agreement in which the owner of a brand or a brand name grants the right of its operation to a physical person or legal entity called franchisee, in order to market products or to provide services for a fee. » (Section 14 of the Tunisian Law of August 12, 2009).
Commerce (Mseddi and Bouri, 2010). The authorities desire to promote franchises, including foreign franchises, also resulted in the organization on December 10-12, 2009, that is 4 months after the law was issued, of the 1st Tunis Med Franchise show. 40 exhibitors were present. Tunisia's franchise institutional environment is changing fast and could allow the country to make up its development gap compared to its neighbour, Morocco. Several French franchisors announced their intention to establish themselves in Tunisia in 2010.

DISCUSSION

The survey conducted on the development of franchises in the three countries of the Maghreb helps to validate the hypothesis that franchises spread in emerging countries thanks to the wish for the internationalization of networks by Western economies, supported or hindered by a more or less favourable institutional environment. According to the institutional isomorphism phenomenon identified by institutional theory (DiMaggio and Powell, 1983), franchising appears by national players in emerging countries to be a legitimate institutional form and as a normal choice in the organization of an outlet network when it is recognized and therefore observed to be so. Foreign brand names, often French ones in the case of Morocco, Tunisia or Algeria, have managed to establish themselves as franchises in these countries, relying on socially and culturally well-anchored local firms. National firms will soon launch their own distribution networks. The example of Morocco, with already 15% of Moroccan franchise chains, illustrates the trend.

We also noted that deliberate policies and the institutional environment for franchises (country risk, existence of modern trade structures, laws and institutions specific to
franchises) are prerequisite to the deployment of foreign franchising, which conditions the development of national franchising. The lessons of the institutional theory, explaining the development of an organizational form by the players' mimetic rationality are verified: franchises are adopted by local firms in emerging countries only if 1) the institutional environment is favourable to the establishment of foreign brand names in franchises, and if 2) the local players can see that this form of trade can be successful. We included in the paper an analysis grid of the institutional environment of franchises, which may be useful for franchisors wishing to export their activities.

In the case of the Maghreb, we noted that while franchises could not take off in Algeria because of mistrust by the authorities, it was already well established in Morocco, and should grow rapidly in Tunisia, as the government there believe that franchises can take a part in the modernization of the trade structures. Franchise allows a greater structuration and more transparency in trade. They can represent an asset for combatting the informal economy, black markets and even counterfeiting. Franchises also contribute to the creation of firms, the development of self-employment and a spirit of enterprise and innovation. This is at least the Moroccan and now the Tunisian governments' opinion.

**CONCLUSION**

Literature on the spread of franchise chains in emerging countries is rich in examples where the facilitating part of the authorities and of the institutional framework in the implementation of networks observed, in China and in Asia, in general, in Latin America and in most emerging countries (Isa, 2012; Yu and Ramanathan, 2012). Our contribution was to propose a fine analysis grid of the institutional environment specific to franchising,
that we used to explain the contrasting development of franchises in the North African countries. This development is also explained through the institutional theories renewing the approaches based on economic efficiency (agency theory and the resource scarcity perspective).

The findings of our exploratory study should be considered as preliminary findings that need to be extended. Our contribution requires additional and more in-depth observation of franchise networks development in Maghreb. Our aim is to contribute to the diffusion of best practices. Another relevant research perspective is to analyze the institutional proximity between institutional characteristics of the “mother” country of the network and the target country.

The preparation of this paper preceded the events of December 2010 and the Jasmine revolution in Tunisia, as it was started at the beginning of 2010, following the doctorate research of one of the authors on trade structures in Algeria. A question arises in view of what occurred in 2011 in the Arab countries: what are the consequences of the revolutions on trade structures in general and on foreign franchising in particular? Riots were observed during the Jasmine revolution in Tunisia, against foreign brand names (for example Monoprix, Géant and Carrefour). Some of the pillaging proceeded from hunger riots, but other more political forms of looting were directed at groups supposedly close to the former regime, including national and international retailing chains (LSA No. 2169). However, although the revolutions slowed down trade for a few months, foreign brand names, particularly the French firms managing brand names as franchises in Tunisia quickly announced significant investment and development programmes in the country, as there was potential for growth and the authorities declared themselves in favour of franchises. It
is probable that the desire to gain economic and social progress will speed up franchising as an efficient and legitimate marketing system in the North African countries provided that the institutional environment favours franchising.
REFERENCES


Duniach-Smith, K., (2003), La franchise internationale : une contribution à l’étude des modes d’entrée à l’étranger, Thèse de doctorat en Sciences de Gestion, Université de Montpellier 1.


Figure 1: Institutions, organizations and strategic choices

Table 1

Analysis Grid for the institutional environment of franchise

<table>
<thead>
<tr>
<th>Groups of criteria</th>
<th>Detailed criteria</th>
</tr>
</thead>
</table>
| Country risk       | - Political stability  
|                    | - Move toward a democratisation of the political structures  
|                    | - government control of key resources  
|                    | - market governance rules  
|                    | - freedom of circulation of goods  
|                    | - freedom of circulation of funds  
|                    | - possibility of cashing-in and repatriating payments in the franchisor's country (up-front fee and on-going royalties)  
| Existence of modern trade structures | - desire to modernize trade expressed by the public powers  
| | - existence and development of foodstuff super and hypermarkets  
| | - quality of transport and storage infrastructures  
| | - index of logistics performance  
| | - training to marketing and management positions  
| | - development and monitoring of statistics on trade structures  
| | - right to a safe lease for commercial premises  
| Laws and institutions dealing with franchise | - belief that franchises plays a part in the modernization of trade  
| | - legal recognition of franchise  
| | - construction of specific franchise laws  
| | - respect for industrial property rights  
| | - creation of franchise associations or federations  
| | - organization of franchise trade fairs  
| | - specific offers from banks to finance franchise  
| | - existence of professional training for franchises  

Source: personal creation
### Table 2

**Comparison of franchising development in the North African countries**

<table>
<thead>
<tr>
<th></th>
<th>Morocco</th>
<th>Algeria</th>
<th>Tunisia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Date of 1st franchise</td>
<td>1962</td>
<td>2003</td>
<td>1933 (Monoprix)</td>
</tr>
<tr>
<td>Number of franchise chains</td>
<td>440</td>
<td>Less than 30</td>
<td>About 150</td>
</tr>
<tr>
<td>Number of franchisee stores</td>
<td>3200</td>
<td>Less than 50</td>
<td>Not available</td>
</tr>
<tr>
<td>Geographical location</td>
<td>46% in the 3 largest cities (Casablanca 27%, Rabat 11%, Marrakesh 8%) Franchises spreading to smaller towns</td>
<td>Limited to Algiers, concentrated in fashionable districts (e.g.: Sidi Yahia)</td>
<td>Concentrated in large cities</td>
</tr>
<tr>
<td>Weight of national franchise</td>
<td>15% of Moroccan networks</td>
<td>Not available</td>
<td>Not available</td>
</tr>
<tr>
<td>Foreign countries</td>
<td>38% France, 12% USA, 11% Italy, 7% Spain</td>
<td>Not available</td>
<td>Not available</td>
</tr>
<tr>
<td>Examples of foreign franchise (number of stores)</td>
<td>Label’Vie (Carrefour, 12 hypermarkets following purchase of the 10 Metro cash and carry), Quick (9)</td>
<td>Yves Rocher, Mango, Quick, Jacques Dessange, Frank Provost, Levi’s</td>
<td>Monoprix (71), Carrefour (45), Géant Casino (1), Système U (1 project 2012), Hertz, Avis</td>
</tr>
<tr>
<td>Examples of national franchise</td>
<td>Marjane (20 hypermarkets), Acima (30 supermarkets) Marwa, Venezia Ice, Hanouty, Kiotori, Mobilia, Yatout</td>
<td>Djazair Trade-Retail Nesk Algeria</td>
<td>Magasin général (45) Cerina Beauté (20), Zen (13), Chahia (95 with 63 in franchise), Elmazza (532 with 350 in franchise)</td>
</tr>
<tr>
<td>Activity sectors of franchisee networks</td>
<td>Clothing trade 26%, Furniture 7%, Restaurants 6%, Shoe trade 5%, others 56%</td>
<td>Not available</td>
<td>Service franchising slow to develop (difficult to repatriate up-front fees and royalties)</td>
</tr>
</tbody>
</table>

Table 3

Demographic comparison and development level of the Maghreb countries (2010)

<table>
<thead>
<tr>
<th></th>
<th>Morocco</th>
<th>Algeria</th>
<th>Tunisia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of inhabitants</td>
<td>32 million</td>
<td>35 million</td>
<td>10.5 million</td>
</tr>
<tr>
<td>Urbanization rate</td>
<td>58%</td>
<td>66%</td>
<td>66%</td>
</tr>
<tr>
<td>Growth rate</td>
<td>3.2%</td>
<td>3.3%</td>
<td>3.7%</td>
</tr>
<tr>
<td>Gross per capita income (in USD)</td>
<td>4627.6</td>
<td>8320.2</td>
<td>7979.3</td>
</tr>
<tr>
<td>Human development index (HDI)</td>
<td>0.567 Average human development group</td>
<td>0.677 High human development group</td>
<td>0.683 High human development group</td>
</tr>
<tr>
<td>Others</td>
<td>7.5 million tourists / year 53 vehicles/1000 inhab.</td>
<td>Not known</td>
<td>6 million tourists / year 71 vehicles/1000 inhab.</td>
</tr>
</tbody>
</table>

Source: hdrstats.undp.org/fr/pays/profils/TUN.html (HDI figures for 2010)  

In comparison, the OECD countries have an average HDI of 0.879; France has a HDI of 0.872. http://hdrstats.undp.org/fr/indicateurs/90406.html (income per inhabitant, figures for 2010. France has an income per inhabitant of 34 340, 7). http://www.statistiques-mondiales.com
Table 4
Comparison of institutional environments for franchises in the North African countries

<table>
<thead>
<tr>
<th></th>
<th>Morocco</th>
<th>Algeria</th>
<th>Tunisia</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Country risk</strong>&lt;br&gt;Global Retail Development Index 2010 (from AT Kearney consulting)</td>
<td>15th</td>
<td>21th (a loss of 10 places)</td>
<td>11th</td>
</tr>
<tr>
<td>Freedom of circulation of funds Possibility to transfer up-front fees and royalties abroad</td>
<td>Yes, transfers authorized</td>
<td>Restrictive policy toward foreign investments - investment financing in dinars only (not convertible) - funds transfers strictly controlled (royalty payments prohibited)</td>
<td>Royalty transfers prohibited up to 2009 – hindrance for services franchises particularly. Since 2009, royalty payment is possible, but remains under the control of the Banque Centrale Tunisienne</td>
</tr>
<tr>
<td>Existence of modern trade structures</td>
<td>Rawaj 2020 development plan with ambitious objectives: - increase trade from 11 to 17% of GDP - build 900 large-scale stores - create 450,000 jobs The plan targets retail trade, bulk trade, medium and large-scale distribution</td>
<td>Unfavourable up to now, but recent awareness that franchises are interesting for the Algerian economy. Constitution of a commission to prepare regulations on franchises, and suggest methods for codifying, organizing and controlling franchise activities.</td>
<td>At the beginning of 2009, the government launched a trade modernization policy, relying on foreign distributors under 2 conditions: creation of jobs and quotas of local products Before 2009, 2 negative experiments for foreign distributors (McDonald’s and Pizza Hut)</td>
</tr>
<tr>
<td>Market share of large-scale retailing</td>
<td>10.00%</td>
<td>Very low : informal trade is dominant</td>
<td>18.00%</td>
</tr>
<tr>
<td>Logistics performance index*</td>
<td>2.38 in 2006 ; NC in 2009</td>
<td>2.06 in 2006 and 2.36 in 2009 (progressing) The lowest in the 3 countries</td>
<td>2.76 in 2006 and 2.84 in 2009 (progressing, the best in the 3 countries)</td>
</tr>
<tr>
<td>Statistics on franchising</td>
<td>Yes, detailed and regular</td>
<td>No data</td>
<td>No data</td>
</tr>
<tr>
<td>Commercial real estate</td>
<td>No right of lease protecting trade premises, hence 18% unoccupied trade premises in Casablanca</td>
<td></td>
<td></td>
</tr>
<tr>
<td>-----------------------</td>
<td>------------------------------------------------------------------------------------------------</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Franchise laws and institutions</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| **Laws on franchise** | No specific laws (trade laws, labour laws, intellectual property laws, competition laws, currency exchange laws)  
But no law opposed to franchise  
No specific laws, but the law does not encourage franchising:  
- consumer credit forbidden  
Before 2009: no recognition of franchises. Players bypassed the difficulty by fragmenting the agreement (brand license, partnership agreements, know-how agreement, technical assistance)  
The law of August 12, 2009, on distribution trade recognises franchising in its Section 5, but no regulations protecting franchisees’ acceptation (DIP) or franchisors’ know-how. Application decree pending. |
Franchise association created in 2006, 2 franchise forums organized since  
| **Behaviour of banks toward franchise** | Attijariwafa Bank and BCP (Banque Populaire) implemented specific offers for franchisees: 7-year credit to franchisees covering up to 70% of the investment programme (including fees and royalties) with an upper limit of 1 million dirhams |

* Sources: www.donnees.banquemondiale.org/indicatuer/LP.LPIOVRL.XQ, the overall score of the logistics performance index reflects how logistics in a country are perceived based on the efficiency of the customs clearance processes, the quality of trade infrastructures and transport infrastructures. It ranges from 1 = low to 5 = high.  