Miljković, S., & Savić, K. (2024). International franchising as a method of implementation and market positioning of existing franchising forms, *SCIENCE International journal, 3*(4), 111-118.
doi: 10.35120/sciencej0304111m UDK: 339.187.44:339.5

INTERNATIONAL FRANCHISING AS A METHOD OF IMPLEMENTATION AND MARKET POSITIONING OF EXISTING FRANCHISING FORMS

Strahinja Miljković[1], Kristina Savić[1]*

[1]University of Priština in Kosovska Mitrovica, Faculty of Law, R. Serbia,
e-mail: strahinja.miljkovic@pr.ac.rs, kristina.savic@pr.ac.rs

Abstract: The need for capital for further fertilization, i.e. conquering new markets through minimal investments, can be realized through franchising as a specific investment method of contractual business. The use of a successful business method, reduced investment risks and independence in business are the determining reasons for joining the franchising network by a potential franchisee. Franchising provides the franchisor with the opportunity to expand its business to the target market with minimal investments and minimal investment risks, until the franchisee, by joining the franchising network, uses all the benefits and advantages in practice of a successfully developed business system that is recognized by potential consumers as business that is characterized by a built image and brand. One of the methods that the franchisor uses to conquer a new market with minimal investments and minimal investment risks, and with the expected profit, is international franchising. International franchising is a distribution technique that contractually integrates a distribution system instead of a chain of ownership managed from a single center. International franchising does not represent a special form of franchising business, but rather a method through which the franchisor realizes the expansion of franchising business on the international market. Regardless of the form in which franchising appears (goods, services, production, etc.) on the international market, it can be realized through various methods that enable and provide international franchising, all in accordance with the needs, specifics and requirements of the target market. Modalities of realization of international franchising are achieved through: 1) master franchising; 2) direct franchising; 3) area development agreements and 4) joint venture.

Keywords: international franchising, franchisor, franchisee, franchise, franchising contract, master franchising, direct franchising; area development agreements; joint venture

Field: Law

1. INTRODUCTION

The need for capital to conquer new markets through minimal investment can be achieved through a franchising agreement (franchise). As a specific investment method of contractual business operations, i.e. as a concept of contractual expansion of business operations in a target market, franchising is becoming ever more aggressively significant in the contemporary market circumstances (Miljković & Simić, 2021). Franchising, as a method of contractual investment business, develops and experiences expansion in the common law system (the American legal system) (Blair & Lafontaine, 2010, p.7). Franchising can most simply be characterized as a method of selling goods (Mendelsohn, 2004, p.1); i.e. franchising is a business tool in which a business owner, called the franchisor, allows another person, the franchisee, to trade in their goods or services in conformity with the franchisor's business plan and using their trademark (Elsaman, 2023, p.45). According to another group of authors, franchising is a system of distribution of goods and/or services and/or technology, based on close and continuous cooperation between legally and financially separate and independent entities, the franchisor and franchisee, by which the franchisor gives the individual franchisee the right and imposes an obligation to operate in line with his business concept (Јовановић & Радовић & Радовић, 2020, p.417). In a franchising agreement, one contractual party, the franchisor, grants for a specific time and in a specific territory the right to use the franchise as a franchise package with the obligation of providing training, administrative, and marketing services to the other contractual party, the franchisee, who commits to using the granted franchise in the franchising unit's operations and to pay a franchise fee for it.

Franchising offers the franchisor the opportunity to expand their business into target markets with minimal investment outlays and minimal investment risks. By joining a franchising network, the franchisee gains all the benefits and advantages of a business system that has been successfully developed and is recognized by potential consumers as having a well-established image, brand, and goodwill (Miljković, 2022). Goodwill consists of two elements: a) the reputation of the existing business and b) the expectation that such a reputation will continue to attract clients (Kavarić, 2020, p.2). It can be concluded that franchising represents nothing more than a distribution technique that integrates a distribution system by

*Corresponding author: strahinja.miljkovic@pr.ac.rs

© 2024 by the authors. This article is an open access article distributed under the terms and conditions of the Creative Commons Attribution (CC BY) license (https://creativecommons.org/licenses/by/4.0/).

contract instead of a chain of ownership managed from a single center (Emerson, 1990, p.1508). One of the modalities of implementation of existing forms of franchising used by the franchisor is international franchising, which enables them to conquer new target markets with minimal investment outlays, minimal investment risks, and expected profits.

2. WHAT IS INTERNATIONAL FRANCHISING?

International franchising is not a separate form of franchising business, but a mode/method through which the franchisor achieves expansion of franchising business into international markets. It should be emphasized that regardless of the form franchising takes (retail, service, production, etc.), it can be implemented in the international market using various methods that enable and provide international franchising, all in accordance with the needs, specificities, and requirements of the target market. The reasons that influence the expansion of international franchising business are: a) the need for growth of successful business operations and b) the ability to achieve such growth by connecting with others who possess capital and workforce (Mendelsohn, 2004, p.1). The international franchising system creates favorable conditions for companies to enter the markets of other countries, stimulating rapid development of entrepreneurial activities (Stetsiuk & Miroshnychenko & Dudko, 2019, p.332). The essence of international franchising is that the franchisor grants the franchisee the right to represent the brand in the international market using trademarks, know-how, technology, and business model (Stetsiuk & Miroshnychenko & Dudko, 2019, p.333).

International franchising is characterized by a number of significant advantages: 1) exploitation of local management when overcoming problems related to foreign language and culture; 2) due to the impossibility or high value of appropriate remote control, business supervision is entrusted to a local expert; 3) legal procedures conducted by local lawyers which allows for the lawful sale of goods in the target country without any liability to its legislation; 4) potential to bypass laws of certain countries that prohibit or control income from foreign direct investments; 5) the ability of overcoming political difficulties, for example, the potential expropriation of foreign direct investments. The franchisee, typically a resident of the target country, significantly reduces the risk of such problems. In any case, even if assets are expropriated, the franchisee, not the franchisor, will suffer the losses; 6) one of the greatest advantages of international franchising is the possibility of avoiding customs duties, which, despite a large number of international agreements, still hinder the development of global trade (Pengilley, 1985, p.190)

3. MODALITIES OF IMPLEMENTING INTERNATIONAL FRANCHISING

Depending on the way the trading network is organized (Stetsiuk & Miroshnychenko & Dudko, 2019, p.335), the modalities of implementing international franchising are implemented through: 1) master franchising; 2) direct (single-unit) franchising; 3) area development and joint ventures (Mendelsohn, 1992, pp.31-32).

3.1. Master franchising

Under a master franchising agreement, the franchisor grants the master franchisee the right to recruit new franchisees (sub-franchisees) within a specified time and territory, with the obligation to provide on-site support services (Hershman & Caffy, 2004, p.55). A master franchising agreement is concluded by the master franchisor when: 1) they do not have sufficient financial resources; 2) lack the necessary experience to successfully develop the franchising business system in the target market; 3) the administrative costs of establishing a standalone business in the target market are large and burdensome; 4) there is a perceived dispersion of business risks between themselves and the master franchisee; and 5) minimal capital investment is necessary with greater involvement from the potential master franchisee through resources (financial, personnel, and experience) they possess. The advantages of master franchising for the master franchisor are that they are significantly relieved from addressing ongoing problems that may arise when entering the target market, as the entire burden falls on the master franchisee (who understands the legal regulations, business customs, culture, and language of the market, and often originates from the target market territory).

By concluding a contract, two independent legal relationships are created between: a) the master franchisor and the master franchisee, and b) the master franchisee and the franchisee (sub-franchisee). A contract is concluded with only one master franchisee in the target market, who has the exclusive right within the territory assigned by the contract (country – region) to open and manage their own franchise unit (franchise outlet), on one hand, and grant sub-franchises on the other hand. By transferring exclusive

rights to develop franchise operations and stepping into the role of the master franchisor, the master franchisee has rights and obligations toward the sub-franchisee. The exoneration clauses within the master franchising agreement stipulate that the master franchisor is released from liability towards the sub-franchisee. A legal relationship is established between the master franchisee and the sub-franchisee, in which the master franchisee acts as the franchisor to the sub-franchisee (Mendelsohn, 2005, p.263).

When the success of master franchising depends on the business capabilities of the potential master franchisee, certain business challenges are posed to the master franchisor. These challenges must be considered in the execution of the master franchise. Potential issues to which the franchisor should pay increased attention include: 1) difficulties in identifying and selecting the right person or company for the sub-franchisor – the master franchisee; 2) the need for a strong and profitable base and business operations that will meet the requirements set by the franchisor; and 3) the diversion of workforce and financial resources in relation to domestic operations. To maximize the chances of success, the franchisor must allocate resources primarily to international operations, always requiring more people and costs than expected; and 4) the time factor, which always lasts longer than expected (Mendelsohn, 2004, p.87).

One of the more significant questions that arise is what criteria can determine whether success or growth in franchising has been achieved in a specific market? The answer should be sought in that the master franchisor always sets minimum growth criteria that the master franchisee must achieve within a specified timeframe. Although the master franchisor can determine the criteria for minimum growth and the period in which it must be achieved, the question arises of what happens if the minimum growth cannot be met, especially in a market that is new and where it is difficult to achieve the projected minimum growth. In such circumstances, the master franchisor often resorts to suspending certain rights, such as the exclusive right to growth if the master franchisee does not achieve the highest projected threshold. By suspending the anticipated right, the master franchisor does not have the right to unilaterally terminate the agreement, except in circumstances where the master franchisee fails to achieve a slightly lower growth threshold (Riesterer, 2001, p.49). In addition to relinquishing the exclusive right to growth, in order to stimulate the master franchisee to achieve a higher level of growth of the franchised business in the target market, lower royalty rates are envisioned (Miljković, 2016, p.224).

In environments where market competition is fierce, the master franchisor requires the master franchisee to quickly develop business in the target market. However, it is necessary initially to allow the master franchisee to operate independently, i.e., they are required to maintain a certain number of systematic units before sub-franchising, for the purpose of becoming familiar with the functioning and operation of franchising. It cannot be expected from a master franchisee who has not demonstrated the ability to independently and successfully manage a minimum number of systematic franchise units to successfully lead sub-franchised operations where it is necessary to continuously and efficiently maintain a connection with the sub-franchisee(s). To avoid such situations, it is necessary for the master franchising agreement to include provisions obligating the master franchisee to independently manage a certain minimum number of systematic franchise units for a specified period, and only after becoming acquainted with the business and functioning of the granted franchising, can they proceed to sub-franchising.

The master franchisor must ensure that the potential master franchisee has the resources necessary for the full development of franchising business. The franchisor always opts for a potential master franchisee who has: a) specific experience; b) the capability to develop a sub-franchising system; c) successfully establishes, maintains, and develops relationships with sub-franchisees; d) can successfully resolve potential disputes between sub-franchisees; e) successfully applies and implements systematic standards; and f) successfully implements the latest management systems. Besides these characteristics, it can be concluded that the master franchisee must primarily behave more like a business manager and less like a business operator to fall into the category. (Riesterer, 2001, p.51).

In modern economic and market contexts, which require faster access to a specific market upon which the survival of a certain brand simultaneously depends, master franchising represents the most suitable and effective method of capital investment. The master franchisee assumes the majority of financial risks and hence the responsibility for the successful management of the granted system, and consequently has a right to a larger percentage of royalties and income inflows from the sub-franchisee holders. The higher revenues of the master franchisee (the master franchisee generally earns more than usual, which occurs in direct franchising or regional development agreements) undeniably imply that the master franchisor achieves lower revenues, in order to position the brand in the target market. However, despite the lower income that the franchisor achieves, it should be noted that one of the major drawbacks of master franchising for the franchisor is 'ceding systematic control over the market.' Ceding systematic control is manifested in that the master franchisee independently (a) chooses the sub-franchisees; (b) provides training; (c) develops the distribution network and (d) controls promotions and advertising in

the target market. The master franchisee is the one who controls how the sub-franchisees meet the systematic requirements implemented in the master franchise agreement, which are also stipulated in the sub-franchising agreement. Through the direct responsibility that the master franchisee has towards the master franchisor, indirect control is achieved in enforcing the prescribed systematic standards by the sub-franchisees.

One of the more significant issues is also the question of training, both (a) for the master franchisee and (b) for the sub-franchisees. The master franchisor is obliged to provide training to the master franchisee and their staff (if they have any). Training for the master franchisee is most often conducted at the headquarters of the master franchisor (with ongoing training provided in the market of the master franchisee). It is necessary to ask whether the master franchisor is obliged to provide training to the sub-franchisees, even though there is no direct contractual relationship with them, or whether it is the obligation of the master franchisee. In circumstances where the master franchisee is developing the franchising business system in the target market and is at the beginning of the business (lacks experience in providing training), the master franchisor provides the necessary training to the sub-franchisees. The obligation to provide training to the sub-franchisees by the master franchisor lasts until the moment the master franchisee becomes experienced enough to provide training.

3.1.1. Distribution

Given that it contributes its capital and bears most financial risks, the master franchisee independently establishes a distribution network. The master franchisee develops a distribution network primarily to distribute to the sub-franchisees: 1) inventory and equipment, and 2) to maintain control over the distribution network and accompanying revenues. (Riesterer, 2001, p.53). If the master franchisor wishes to retain control over the distribution network and the ongoing inflow of revenues from inventory and equipment, they independently develop a distribution system. The development of the distribution network, both by the master franchisor and the master franchisee, initiates potential conflicts regarding the jurisdiction of goods distribution. Avoiding conflict is in the compromise anticipated in the master franchising agreement, which stipulates that the franchisor is responsible for the distribution of proprietary goods (for which the agreement is concluded), and the master franchisee is responsible for the distribution of local products.

For the success of master franchising, it is essential that the master franchisor requires from the master franchisee a higher degree of management, i.e., managerial capabilities. Finally, it should be emphasized, based on everything presented about master franchising, that it represents the most applicable, most popular, and most successful form of international franchising.

3.2. Direct franchising

Direct franchising is a form of franchise business that allows the franchisor to enter into a separate agreement with each franchisee (Mendelsohn, 2004, p.86) along with the obligation to provide basic and ongoing support throughout the term of the agreement. A direct franchising agreement ensures the independence of the franchisee in terms of managing the franchise unit (Riesterer, 2001, p.41). The advantages of direct franchising for the franchisor include: a) the ability to maintain a franchise agreement for each franchise unit, even when the same franchisee operates several units and b) serves as an experimental model (pilot project) in the target market, i.e., an instrument for in-depth scanning of the target market, in order to justify or refute the feasibility of independent operations or entering into a more complex form of franchising agreement.

In the process of concluding agreements, the significance of direct franchising as a modality for implementing one of the forms of franchising agreements lies in its application, aimed at avoiding certain potential problems (market conditions), which nullifies the differences that may exist in the target market that can significantly impact the success of the franchising system's operations. Such differences include: a) language barriers; b) local laws that may influence franchising, franchise operations, and contracts, regardless of the increased standardization of specialized industrial laws; c) cultural differences and differences in daily life; d) variations in taste and habits of the population in individual countries; e) unchangeable national characteristics; and f) the need to adapt the franchising system – network to local conditions. (Mendelsohn, 2005, pp.261–262). The franchisor must directly or through outsourcing verify whether: a) the potential franchisee operates in accordance with the positive legislation and b) the business they wish to conduct is in compliance with the positive legislative acts of the target market. As the franchisee, there appears to be a small business owner who lacks sufficient own capital to start a business independently and often lacks the necessary knowledge and experience in the domain of business and advertising. The question arises as to how such a franchisee can operate in the target market and achieve the expected results. Under such circumstances, a greater participation of the franchisor is inevitable, specifically: a) with increased financial resources; b) with increased participation in the direct training of

franchisees; and c) in establishing a distribution network. In addition to greater involvement in the initial steps of developing franchise business, there is also a need for greater participation of the franchisor in the domain of advertising. The franchisor allocates a significant portion of its financial resources to advertising (Miljković, 2016), particularly when it is necessary to promote the franchising business that is emerging, with the aim of conquering the target market. At the moment when the franchising business becomes recognizable in the market, the entire burden of advertising and promotion falls on the franchisee, with the franchisor able to continue with advertising and promotion, if it assesses that the franchisee is not business-ready to take them on. The obligation to provide training has its advantages and disadvantages for the franchisor. The advantage of direct training for the franchisor is that it allows a significant level of control over the franchisee when entering the business system, on the one hand, while on the other hand, it entails the need for significant financial resources. Given the amount of financial resources needed, the franchisor needs to consider whether: a) the training is conducted at its headquarters or at the headquarters of the franchisee; and b) whether existing training programs can train a new franchisee or whether a new training program needs to be developed and designed.

One of the important segments of direct franchising is establishing a distribution network in the target market. By establishing a distribution network, the franchisee is enabled to procure the goods necessary for operations at more economical (privileged) prices from the franchisor than market prices. However, when developing the distribution network, the franchisor must consider the circumstances of whether: a) inventory and equipment can be purchased on the local market or must be imported; b) volume discounts are available if negotiating with suppliers of the entire system; and c) the system includes proprietary goods that must be imported from the franchisor's home country (Riesterer, 2001, p.43).

Finally, in circumstances when the target market is close to the headquarters of the franchisor (which is located in a neighboring country) and when distribution costs are minimized, direct franchising is applicable, i.e., profitable. However, even in circumstances where there is a significant distance from the business headquarters, the business of direct franchising is profitable if the franchisor: a) does not need to conduct comprehensive and complex training and control of the franchisee (the business system that is transferred by contract is not complex), and b) due to tax or business regulations of the target market, is unable to independently develop the franchising business in the target market.

3.3. Area development agreements

Through area development agreements, the franchisor grants the franchisee (the development executor) rights to open and operate a specified number of franchise units within a predetermined time frame (expansion period) and defined area (territory - zone) (Mendelsohn, 2004, p.66). Area development agreements are conceptually similar to direct franchising. The franchisee, acting in the role of 'development executor,' is required to develop 'multiple franchise units' within clearly defined territorial boundaries in a specific market, within a precisely determined timeframe (Riesterer, 2001, p.44).

Essential for area development agreements is the territory – the region in which the franchisee is granted exclusive rights to establish franchise units. The franchisor precisely specifies by agreement the size of the territory on which the franchisee must execute the granted exclusive rights. An area development agreement is applicable in the domestic market only in large countries that cover a vast area with a significant concentration of population (Mendelsohn, 2005, p.269). When determining the size of the territory, instead of allocating the entire target market to one franchisee, the franchisor can designate a larger number of areas within the target market to be assigned to a greater number of franchisees, aiming to encourage competitiveness among them. The competitiveness among franchisees is closely linked to the achievement of business plans determined by the franchisor, which relate to growth, profitability, or performance of the franchised business (Riesterer, 2001, p.44)..The franchisor often, for reasons such as a) lack of market knowledge or b) absence of an adequate and serious franchisee, chooses not to grant the franchise to a single large franchisee because the failure of development based on the contractually stipulated conditions can affect the business of the entire franchising network. In such circumstances, the franchisor, often within the target market, designates a 'larger number of smaller areas' where the franchisee is determined within each of these areas.

By concluding and implementing area development agreements, two contractual relationships are formed. The first arises between the franchisor and the franchisee, based on which the franchisee has exclusive rights to the assigned territory and is obliged to develop and manage the franchising business within that territory. With the implementation of the assigned rights and obligations, the franchisee (franchising area developer) enters into an individual contract with each individual franchisee in the designated area. The area developer, at the request of the franchisor, is obligated to conclude an individual contract with each potential franchisee. The reason why the developer must do this is to ensure that the franchisor can unilaterally terminate the contract for the regional development of individual units without

abolishing the franchisee's right to manage all its units within the assigned territory. The franchisor can combine the contract for regional development with contracts of individual units because this ensures an exclusive right to remove a problematic franchise – the area developer from the franchising business system.

When concluding area development agreements and later implementing them in the target market, the franchisee assumes the obligation and responsibility for the growth and development of the system in the target market by agreement. Given that area development agreements are concluded with one or more developers, it is of utmost importance that the franchisor retains the right to limit transfer – contractual conveyance. The franchisor, by contractual provisions, limits or prohibits the franchisee from freely selling individual units to third parties. For the franchisee to be able to sell, i.e., to carry out a transfer, written consent – approval from the franchisor is necessary.

For franchisors, it is also important to whom they grant the exclusive right of development in a specific area. Although area development agreements can produce widely divergent systems depending on the size of the exclusive territory granted, it is worth noting that there is no 'one-size-fits-all' profile of a franchisee. When development is assigned to multiple developers, small exclusive areas are allocated within a single target market, and the franchisees are similar to direct franchisees (they often lack easy access to capital and require substantial business assistance from the franchisor). In the allocation of larger areas involving only one area development agreement, the franchisee is typically a company that has developed and established a system of successful business operations, therefore: a) the investments for capital expenses by the franchisor are lower; b) development costs are shared between the franchisor and the franchisee; and c) training costs for the franchisee are significantly lower. In situations where the franchisor enters into area development agreements with a 'single franchisee,' there is a: 1) reduction in administrative costs; 2) minimization of training and monitoring requirements; and 3) less need for direct contact with the franchisee compared to a direct franchising system.

In circumstances where the franchisee is a developed business entity, and therefore there is a smaller number of franchisees, the training costs for franchisees are considerably lower, and the franchisor's expenditures are significantly lower than during the training of direct franchisees. However, if area development agreements are concluded with a larger number of small franchisees, it is inevitable that they require an enhanced system and level of business training.

Unlike direct franchising where the franchisor often finds themselves faced with the challenge of independently solving ongoing issues that may arise during the system development phase, this is not the case with area development agreements. In area development agreements, the franchisor utilizes resources developed by the franchisee, thereby making their position much more comfortable, especially when the contract is concluded with a franchisee who already has an established business system. The franchisee is the one who will bridge the language and cultural barriers, while the franchisor has the opportunity to better understand the legal regulations of the target market. However, when a larger number of area development agreements for 'smaller areas' are concluded, the position of the franchisor is not the same as in the previous case because it involves franchisees who are very similar to those in direct franchising. In such circumstances, the franchisor, with the help of the franchisee-developer, needs to solve all those problems they would have faced during direct franchising.

As with direct franchising, the question of developing a 'distribution' system is one of the crucial issues, and its resolution can influence the success or failure of franchising development. When it comes to contracts for 'developing smaller areas with a larger number of developers,' the franchisor assumes the same or similar obligations as in direct franchising, i.e., they themselves develop the distribution system (distribution network) and thereby participate in the development of the system. However, if area development agreements are concluded with 'one or a smaller number of' franchisees (developed and successful), it is assumed that they are capable of independently meeting the ongoing distributive needs or can satisfy the distributive needs of the system even outside the market in which the franchisee operates (Riesterer, 2001, pp.47-48).

Area development agreements are often resorted to by the franchisor when: a) they wish to maintain direct control over the granted system and to have a continuous flow of royalties; b) they do not want to invest or develop relationships with a larger number of franchisees, but only with one or a few who have an established business system; and c) tax laws, legal regulations, or other circumstances prevent them from independently and directly developing in the target market, and they do not want to relinquish control over the granted system and to have a continuous flow of income - royalty.

3.4. Joint ventures

A joint venture represents another in a series of modalities that serves the franchisor as a method for developing a franchising network in a target market. The need to: a) participate from the very beginning

in developing the business system; b) retain capital in the joint venture company; c) minimize exposure to financial risks; d) utilize the knowledge and experience of a local partner; and e) if there are tax incentives or business advantages that facilitate easier collection of local capital, present the determining reasons why an entity enters with a local partner into a joint venture company agreement (Sanga, 2018). A joint venture company appears in the role of: a) franchisee or b) franchisor. Operating via a joint venture does not significantly change the development of franchising operations; the target market develops through the recipients of the master franchise or area developers, albeit the master franchisee or area developer is to some extent owned by the franchisor as one of the founders of the joint venture company (Riesterer, 2001, p.57).

Depending on the specific needs of the franchisor for developing franchising in the target market, a different degree of ownership - share held by the local partner over the company can be determined. When the franchisor needs a local partner to leverage 'its knowledge and experience' of the market, then minor ownership rights are assigned to the newly established company. In cases where the franchisor needs 'capital for development' of the franchising business system, using the capital and resources of the local partner, then greater ownership rights are granted. For a joint venture company to operate in the target market, it must conclude an appropriate 'development agreement' or a master franchising agreement with the franchisor (Mendelsohn, 2005, p.266). All business rules applicable to other companies also apply to the joint venture company, regardless of it being partly owned by the franchisor.

Considering the needs and in accordance with the goals it has and wishes to achieve in the target market, the franchisor thus selects a potential partner. If national legislation stipulates that one of the partners must be from the target market or if the contract aims to gather local capital, a 'sophisticated business entity' emerges as a partner, which possesses significant capital and is capable of aligning business operations with: a) companies in the target market, and b) financial laws and regulations of the target market. In cases where the franchisor uses a local partner to gather knowledge about the local market, then the local partner plays a more significant role in the daily legal-business operations of the joint venture company.

The incentive for a franchisor to participate with a significant capital investment is contained in the existence of ownership rights and securing initial success of the joint venture company in the target market, while the local partner contributes experience and knowledge of the target market. Given the circumstances that involve a substantial part of the capital, it is inevitable that the franchisor also has a higher degree of control over the business operations of the joint venture company. The level of control over the business is significantly higher compared to the control the franchisor has in master franchise agreements. The franchisor must ensure that the implemented control is consistent with the planned control, for the reason that other franchisees should not feel discriminated against in relation to the joint venture company that might appear in the role of a franchisee.

The franchisor, who is interested in the success of the joint venture company, actively participates (take upon themselves the responsibility) in training the company's staff. However, the question arises whether the franchisor, regardless of the level of control and how much financial involvement there is, is obligated to train the staff? The answer to this question is linked to two primary factors: a) the amount of financial involvement and b) the degree of control. If the franchisor's financial involvement is proportional to or less than that of the local partner, and the degree of control is lower, the franchisor is not obligated to provide complete and immediate training that would be provided under different circumstances.

Finally, no less significant and even crucial to success is the franchisor's interest in ensuring that joint ventures succeed in the target market, which is linked with the distribution system, i.e., how developed the distribution network is. The franchisor undertakes the obligation to develop the distribution system at their own expense regardless of whether the distribution remains within the realm of the franchisor or is established at the level of the joint venture (Riesterer, 2001, p.57). Despite the franchisor being the one who develops the distribution network, the development of the distribution network is always an obligation of the joint venture company when it acts in the role of: a) the franchisor (direct franchising) or b) concluding contracts for regional development (development of small territories).

4. CONCLUSION

Based on what was presented in the paper, we can draw the conclusion that franchising as a special form of contractual investment to the franchisor through the assignment of the franchising package of rights, image, goodwill, brand and business methods gives him the opportunity to expand his business in the target market with minimal investment and minimal investment risks. Expanding its business on the target market, the franchisor uses various existing forms of franchising. The advantage

for the franchisee is that by accessing the developed franchising network, he uses all the benefits and advantages in practice of a successfully developed business system that is recognized by potential consumers as a business characterized by a built image, brand and goodwill. However, it should be pointed out that one of the modalities through which the franchisor achieves the expansion of franchising business on the international market is international franchising. In order to avoid potential confusion, and as we emphasized in the paper, international franchising does not represent a special form of franchising business. In our work, we tried to provide a better insight into the advantages of international franchising, which is achieved on the international market, depending on the way the trade network is organized, through: 1) master franchising; 2) direct franchising; 3) area development agreements and 4) joint venture. In the paper, the author has discussed each of the forms of realization of international franchising, leaving the reader of this paper to better familiarize himself with each of them separately, acquainting him with their advantages and disadvantages.

REFERENCES

Blair, D. R. & Lafontaine, F. (2010). The Economics of Franchising. Cambridge.
Emerson, W. R. (1990). Franchising and the Collective Rights of Franchisees. Vanderbilt Law Review, 43(5), 1503-1568.
Elsaman, R. (2023). Franchising law in the United States between theory and practice: heads up for foreign investors. Touro Law Review, 39(1), 43-88.
Hershman, S. & Andrew A. &Caffy, A. A. (2004). Structuring a Unit Franchise Relationship. Fundamentals of Franchising. American Bar Association: Chicago.
Јовановић, Н. & Радовић, В. & Радовић, М. (2020). Трговинско право. Београд.
Kavarić, M. (2020). Goodwill compensation in franchising and distribution contract in European law and bases for an analogous application of the compensation rules applicable to commercial agents. Iustinianus Primus Law Review, 11(2), 1-17.
Mendelsohn, M. (1992). Techniques for International Expansion. Franchising in Europe, London: Cassell.
Mendelsohn, M. (2004). Franchising law. Second edition, Richmond Law and Tax: London.
Mendelsohn, M. (2005). The Guide to Franchising, 7th Edition, Thomson: London.
Миљковић, С. (2022). Разрешење недоумица о томе шта је goodwill и да ли прималац франшизе има права поводом goodwill-а. Право и привреда 3/2022, 461-477.
Miljković, S. D. & Simić, I. (2021). Waiting for the Adoption of the Draft Civil Code of the Republic of Serbia (Important for the Law Regulation of the Franchising Agreement). Balkan Social Science Review, 18, 67-83.
Миљковић, С. (2016). О врстама франшизних накнада. Зборник радова Правног факултета у Нишу. Бр. 72, Година LV, 217-232.
Riesterer, A. C. (2001). Structuring the Contractual Relationship, Fundamentals of International Franchising. American Bar Association: Chicago, 38-58.
Sanga, S. (2018). Theory of corporate joint ventures. California Law Review, 106(5), 1437-1475.
Stetsiuk, B. & Miroshnychenko, Y. & Dudko, P. (2019). International franchise agreement. Baltic Journal of Economic Studies, 4(5), 332-337.
Pengilley, W. (1985). International franchising arrangements and problems in their negotiation. Northwestern Journal of International Law & Business, 7(2), 185-207.