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INNOVATION IN FRANCHISING SYSTEMS UNDER THE IMPACT OF DIGITALIZATION AND ARTIFICIAL INTELLIGENCE

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Abstract

This paper provides an analysis of the franchising system, synthesizing the theoretical foundations of vertical cooperation, the innovator's psychological profile, and customer loyalty mechanisms, correlating them with cutting-edge research on the Motivation-Opportunity-Ability (MOA) framework and the impact of Artificial Intelligence. The results highlight the importance of integrating the traditional rigor of the franchise-specific business package and the agility provided by new technologies. Additionally, the paper emphasizes the importance of technological education and demonstrates that the future success of franchise networks depends on the capacity to generate not only economic but also social value, in the form of Digital Social Innovation (DSI) in accordance with the Sustainable Development Goals (SDGs), which defines franchising not just as a replicable business model, but as one capable of continuous evolution through innovation.

Keywords: ***franchising system, vertical cooperation, MOA, AI, digitalization, DSI, SDG.***

1. Introduction

Franchising is defined in the literature as a distribution system organized through vertical cooperation, based on long-term contractual rights and obligations between a franchisor and its franchisee partners. This model has demonstrated remarkable resilience over the decades, offering independent entrepreneurs the opportunity to operate under the umbrella of an established brand, minimizing the specific risks of a solitary firm. The evolution of this system

has been marked by the transition from the first generation of distribution licenses to complex global networks, integrated today into a digital reality that demands constant adaptation of marketing and operating strategies (Peskova, 2025).

Furthermore, the importance of this topic is amplified by the current global context, where digitalization has become an essential dynamic capability for survival in the economy. The transition to the information society was accelerated by the recent health crisis, which forced the integration of digital tools into all economic structures. The introduction of modern concepts such as the Motivation-Opportunity-Ability (MOA) framework and Artificial Intelligence represents not just a technological option, but a strategic necessity for maintaining competitiveness and consumer loyalty in an increasingly volatile business environment.

The integration of information and communication technologies (ICT) has facilitated the transition from traditional models, dependent on physical proximity, toward digitized ecosystems (Hu et al., 2025). Digitalization allows contemporary franchises to utilize predictive analytics and cloud management to optimize consumer engagement, reducing entry barriers and turning digital transformation into an essential dynamic capability for network resilience.

2. The Evolution of Franchising and the Institutional Framework

The core of any franchise is represented by the "business package," a complex structure that includes supply methods, continuous training and instruction for partners, protection of warranty rights, and the development of the concept throughout the contractual term (Molico, Wunder, 2002, p.137). The interests of the two parties are complementary: the franchisor aims to expand the network without the administrative burden of its own subsidiaries, while the franchisee benefits from the security of a verified model. The franchising system represents a sophisticated form of vertical cooperation between a franchisor and a franchisee, structured as a strategic mechanism for risk distribution and resource optimization. According to the analysis conducted by Kukec (2025), this model reduces the franchisor's financial and operational burden, while simultaneously facilitating franchisees' access to pre-existing brand equity, diminishing the uncertainty inherent in independent start-ups.

To avoid failure and the withdrawal of the license, a work published under the aegis of the Body of Expert and Licensed Accountants of Romania (CECCAR) establishes the profile of the ideal franchisee that includes, mainly (Molico, Wunder, 2002, pp.147-151): autonomy within the system, respectively the capacity to exercise independence within contractual limits,

maintaining the balance between entrepreneurial initiative and compliance with the network's standards; strategic communication skills that ensure the open exchange of information with the franchisor and partners to guarantee brand cohesion; ethics and professionalism embodied in adherence to reporting norms and financial transparency, essential for consolidating trust in the franchise network.

The first generation of franchises is documented at the end of the 19th century, with the Coca-Cola Co. as a historical milestone, which utilized licensing contracts for the distribution of its products in bottling plants. A turning point occurred in the United States of America in 1960, through a "revolution" that rapidly generated approximately 700 business systems based on this model. The American success was adopted by Western Europe in the seventh decade of the 20th century, such that in 1944 there were already consolidated networks in France (600), Great Britain (432), Germany (390), Italy (387), the Netherlands (309), Spain (200), and Austria (170) (Molico, Wunder, 2002, pp. 27-37). Currently, a remarkable indicator of recent dynamism is the Croatian market, which has recorded since 2020 a 168% increase in domestic brands, with 248 franchise brands on the market (Kukec, 2024).

The rapid expansion of franchising systems necessitated a legal and professional framework, materialized through the establishment of the International Franchising Association (1960) and the European Franchising Association (1971), followed by national federations in major European capitals. The International Franchise Association (IFA) and the European Franchise Federation (EFF) act as vectors of professionalization through the following essential concerns: establishing rigorous standards of conduct to protect the integrity of the franchisor-franchisee relationship; the transfer of know-how to facilitate entrepreneurial education and the exchange of best practices at a cross-border level; representing sectoral interests before regulatory bodies to ensure an equitable legal framework; and reducing information asymmetry and investment risks through reporting protocols.

The dynamism of the sector is confirmed by the constant expansion of over 2.5% annually, with the franchising system currently generating an estimated global economic activity of $4 trillion, with a unit profitability rate of 80-90% according to data from the International Franchise Association and the British Franchise Association (IFA, 2025; BFA, 2024). The development of these organizations has ensured an efficient transfer of know-how and increased protection of contractual rights, consolidating franchising as a very successful business network that transcends cultures and borders.

3. Innovation and Digital Transformation of Franchises

Innovation, in its open and continuous forms, is the engine that maintains the competitiveness of franchises, especially in the quick service restaurant industry, where adapting menus and technologies is vital. The profile of the successful innovator is defined by the "innovator's DNA" a set of four behaviors: questioning (constant exploration of variables), experimenting (seeking new intellectual experiences), networking (leveraging diverse connections), and rigorously observing customer behavior (Gallo, 2011). This capacity for close observation represents the primary source of inspiration for original solutions in complex market contexts. Modern entrepreneurs must correlate the traits of "innovator's DNA" with the Gartner Hype Cycle indicators, recognizing the moment when an innovation leaves the "trough of disillusionment" to climb the "slope of enlightenment" (Diamandis and Kotler, 2016). The stages of this cycle are marked by the innovation trigger, the peak of inflated expectations, and the trough of disillusionment, followed by the development of a clear methodology that leads to the plateau of productivity. Understanding this cycle allows franchises to adopt digital tools such as POS systems, mobile applications, inventory management software, or data analysis platforms at the optimal time to maximize operational efficiency and expand the business (Sabaran, Abd Aziz, 2023).

Risk management in franchising is multidimensional, including financial variables (cash flow sustainability), operational variables (quality erosion), and reputational variables (the systemic impact of poor individual performance). However, these risks are greatly reduced by the evolution of organizational structures toward increasingly autonomous and independent forms (Dent, S.M., 2004, p. 219), an evolution generated and supported by digital transformation which improves collaboration between the franchisor and franchisees (Peskova, 2025). In this context, knowledge transfer acts as a risk buffer, ensuring that the franchisor's expertise stabilizes the franchisee's operations, generating a reported success rate of over 90% after five years (FraNet, 2023; Neighborly, 2024).

Digital transformation adapts traditional models into digitally-driven ecosystems, a process essential for economic viability, as demonstrated by Starbucks through the integration of mobile payments (Hu et al., 2025). The analysis of the adoption of these systems is based on the Motivation-Opportunity-Ability (MOA) framework, which demonstrates how internal and external factors converge to form entrepreneurial intention. A recent study conducted on a sample of 491 subjects from the fashion industry utilizes the Motivation-Opportunity-Ability (MOA) model to explore the dynamics of entrepreneurial intention. Rooted in Self-

Determination Theory, the research demonstrates that the success of digital franchise platforms depends on the convergence of motivational factors and infrastructural support (Hu et al., 2025). The results of structural equation modeling (SEM) indicate that expected external rewards and the support provided by the platform are the primordial determinants of entrepreneurial intention. The extremely high statistical significance ($p < 0.001$) confirms the validity of the model. Moreover, entrepreneurial intention acts as a critical mediator between MOA antecedents and consumption adoption, underscoring the importance of entrepreneurial psychology in the success of digital ecosystems. Furthermore, the study shows that opportunity is represented by platform support (technical assistance and resources), with an impact of 0.315 in reducing uncertainty, while ability refers to self-efficacy and the digital literacy necessary for operating in the online environment (Hu et al., 2025).

Digitalization acts as a dynamic capability that strengthens network resilience during crisis periods, allowing easy access for new categories of entrepreneurs, such as Generation Z. The integrated MOA model demonstrates that success in digital franchise platforms is a function of the balance between material motivation, the technical support provided by the franchisor, and the digital competencies of the partner.

More recently, Artificial Intelligence (AI) is redefining competitive advantage by automating routine tasks and providing data-driven insights (Kukec, 2025). In the Croatian franchise sector, 91.4% of franchisors consider AI a strategic advantage, with the predominant uses being marketing (82.8%) and text generation (80.1%) (Kukec, 2025). This distribution differs significantly from the US market, where the primary use of AI is concentrated on customer service at a rate of 56% (Haan, 2023).

A major obstacle identified is the "knowledge gap," with 37.1% of Croatian franchisors considering the lack of AI expertise a barrier to selling franchises (Kukec, 2025). AI facilitates the personalization of the customer experience through chatbots and inventory optimization, while simultaneously allowing for the prediction of future trends based on key performance indicators (KPIs) (Kukec, 2025). Bridging this gap through education is imperative to avoid losing competitive advantage to international networks that are adopting these technologies at an accelerated pace.

For a franchising system, value creation through innovation is paramount to maintain and/or improve the standards of the services and products offered. This value, most often perceived in terms of quality and positive experience, allows consumers to climb the steps of the Loyalty Pyramid (Aaker, 2005). The base of the pyramid consists of the indifferent, price-sensitive

buyer, while the higher levels reflect growing trust and brand attachment, transforming the client into a devoted buyer who considers the brand a "friend." This loyalty-building process is essential for long-term success, generating a stable reputation that protects the network during periods of instability. Thus, in the context of digital franchising, Aaker's loyalty pyramid must be reinterpreted through the lens of platform trust and the quality of the interactive experience, as brand equity no longer derives solely from the product, but from the fluidity of the digital ecosystem.

Digital Social Innovation (DSI) represents the new strategic horizon for franchising systems in the coming years. DSI refers primarily to a process of identifying innovative, efficient, and sustainable solutions to social problems, such as those found in the Sustainable Development Goals (SDGs) (Qureshi et al., 2021). By aligning with the Sustainable Development Goals (SDGs), the digital franchise becomes an agent of positive change. For example, the franchising system is a massive social engine, currently generating over 120 million directly involved jobs globally (Smereczniak, 2025). Furthermore, the elimination of physical barriers and the reduction of the need for brick-and-mortar commercial spaces contribute directly to decreasing the carbon footprint.

The support provided by digital platforms democratizes access to resources, transforming the franchising system from a simple profit vehicle into an engine for sustainable growth. Therefore, the synergy between the MOA framework, AI capabilities, and the SDG vision redefines franchising as a paradigm of resilient innovation, capable of generating economic and social value in a digitized global economy.

4. Conclusions

Success in the digital-century franchise depends on the ability to synthesize historical experience and managerial rigor with cutting-edge technological innovation. The analysis demonstrates that the traditional pillars defined by organizations such as the IFA or CECCAR remain fundamental; however, these must now be integrated into dynamic frameworks like the MOA model, where digital support and financial motivation play determining roles (Hu et al., 2025; Kukec, 2025). Furthermore, success in the modern franchise depends on the platforms' ability to transform technological complexity into operational simplicity for the franchisee, while simultaneously maintaining the integrity and fundamental values of the vertical cooperation system.

Finally, the modern franchise must overcome the knowledge gaps related to Artificial Intelligence to secure its market position. The adoption of AI and the orientation toward digital social innovation represent not only mechanisms for efficiency but also ways to meet new sustainability demands. The evolution from an industrial society to an information society transforms every franchise location into an active digital node, capable of co-creating value within an increasingly interconnected global network.

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