Are Disclosures Really Standardized?
The Case of Quick Service Restaurant Franchises

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Abstract

A major goal of federal disclosure laws is to ensure that pre-contractual disclosure documents, in each industry, are standardized. By standardization, disclosure laws aim to assist consumers in making effective comparisons between competing products and services. Through facilitating effective comparison, the ultimate goal of disclosure laws is to increase competition among suppliers hoping to attract well-informed consumers.

Given the federal goal of disclosure standardization, an important question arises as to whether disclosure documents are, in reality, standardized. This article empirically examines, as a case study, a collection of 109 financial performance disclosures, provided by franchisors to prospective franchisees, in the most dominant of all franchise industries: the quick service restaurant industry. The empirical results of this case study demonstrate that these disclosures are far from being standardized. Among the disclosures that provide financial performance information, at least five major variations exist. First, the disclosures are not standardized in regard to the availability of information about the restaurants’ costs. Second, the disclosures are not standardized in regard to the existence of distinct financial data about franchisee-owned restaurants (as opposed to franchisor-owned restaurants). Third, the disclosures differ in terms of the characteristics of the units which are included (e.g., length of operation, number of owners, etc.). Fourth, the disclosures are not standardized in their methods of grouping the restaurants’ financial performance data (e.g., geographic location, size, etc.). Fifth, disclosures differ in the statistical data which they provide about the restaurants’ financial performance (e.g., quartiles breakdown, sales breakdown, etc.).

These empirical results have significant implications, not only for the quick service restaurant industry, but also for the institutional design of federal disclosure regulations.

Key words: Franchise Rule; Disclosure; Standardization