Signaling the Value of a Business Concept:
Evidence from a Structural Model with Brazilian Franchising Data

Muriel FADAIRO
Associate Professor of Economics
CNRS, GATE Lyon-St Etienne, UMR n° 5824
Université de Lyon, F-42023 Saint Etienne, France
Phone: +33 (0) 477 421 963.
Fax: +33 (0) 477 421 950.
fadairo@univ-st-etienne.fr

Cintya LANCHIMBA
Ph. D Student in Economics
CNRS, GATE Lyon-St Etienne, UMR n° 5824
Université de Lyon, F-42023 Saint Etienne, France
Phone: +33 (0) 477 421 962.
Fax: +33 (0) 477 421 950.
cintya.lanchimba@univ-st-etienne.fr

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Abstract

Within the wide literature regarding franchising, a few studies were devoted to the adverse selection phenomena in the franchise relationships, and to the signaling explanation of the franchisors’ organizational choices.

Previous empirical works concluded that the signaling framework is not well adapted to study franchising.

However, most of the empirical literature has focused on developed countries.

This empirical paper deals with the case of Brazil. We estimate on recent franchising data a structural equation model capturing the simultaneous influences of a valuable business concept. The paper provides evidence that the signaling theory is adequate to understand the organizational choices regarding the ownership structure of franchised networks in emerging markets. The estimation results suggest indeed that the Brazilian franchisors use signaling devices, and that the necessity to signal the value of a business concept affects the organizational choices at the network level.

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Franchising; Emerging countries; Signaling theory; Structural Equation Modeling.

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